
Lehman Brothers International (Europe) – In Administration

Joint Administrators' eighth progress
report for the period from 15 March
2012 to 14 September 2012

12 October 2012

Important notice

Creditors will note that this report provides data relating to certain estimated future costs, recoveries and creditor claim amounts. Please note that significant 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, 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 position or legal arguments on any such matters from references made in this report.

While amounts included in this report are stated in sterling, a material but reduced proportion of the assets and liabilities continues to be denominated in currencies other than sterling.

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

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Section 1:

Purpose of the Administrators' 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 eighth such formal update to unsecured creditors and it provides details of progress for the six-month period 15 March 2012 to 14 September 2012. The statutory receipts and payments accounts for the same period are attached at Appendix B.

Two important events (relating to LBI and LB Lux) occurred on 4 October 2012, subsequent to the period end. The narrative and financial update in this report both reflect these material developments.

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 and other important announcements can be found at www.pwc.co.uk/lehman.

The Administrators plan to host a one-hour webinar on Monday 12 November 2012, giving creditors an opportunity to hear a summary of recent developments and to participate in a Question and Answer session. Details of the webinar will be posted on the above website in the near future.

Objective of the Administration

The Administrators continue to pursue the objective of achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were to have been wound up without first being in Administration.

The specific aims of the Administration are to:

- recover and/or realise all House assets, including cash, securities and in-the-money financial contracts, on a managed basis;
- admit unsecured creditors' claims and make distributions to creditors; 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, telepresence or audio conference calls.

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

Details of the Committee members are listed in Section 10. During the period, one member resigned from the Committee.

Future report and updates

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

In the interim, we will provide *ad hoc* updates in the event of any material developments including the scheduled first dividend to unsecured creditors, through the website, or by other means, as appropriate.

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe) –
in Administration

Section 2:

Executive summary

Significant developments

There have been many significant developments across a wide range of matters over the past six months, with the emphasis of our efforts being placed on a number of very material value items that will influence our first interim distribution plans for later this year. The most important of these were:

- LBIE's unsecured claims filing date was brought forward to 31 July 2012. In the period since the last report and prior to the filing date, 806 further Street claims (total: c.£6.7bn) and 85 further Affiliate claims (total: c.£35.1bn) were filed;
- amongst LBIE's Affiliates claims, LBF and LBEF filed Proofs of Debt which were substantially higher than previously expected by the Administrators (c.£11.2bn and c.£8.8bn respectively). LBIE considers both of these claims to be significantly overstated;
- LB Lux filed claims of c.£11.8bn, of which c.£11.5bn was characterised as an Administration expense claim, intended to rank in priority to general unsecured creditors. The Administrators worked urgently with the LB Lux liquidators with a view to resolving this matter on a consensual basis, and on 4 October 2012 a conditional withdrawal of all but c.£0.1bn of the claims was achieved (and that c.£0.1bn is to be an unsecured claim). As a precautionary measure, the Administrators have separately issued proceedings in the UK High Court to seek a determination on the Administration expense claim status, in the event that the settlement does not become unconditional in time to pay a first interim dividend as planned in November 2012;
- significant progress has been made in settlement discussions with LBI to resolve LBIE's House and Omnibus claims against LBI, resulting in the signing of non-binding heads of terms on 4 October 2012. Incorporated within the heads of terms is a binding reserving agreement which immediately caps the recoveries that each Affiliate can make in the other's estate, in the event that consensual settlement is never in fact completed in due course;
- although settlement discussions have also further advanced with LBF, formal agreement appears to remain some way off, albeit we will endeavour to agree with LBF a reduced claim number for reserving purposes. If agreed in time, this could materially assist the Administrators in maximising the first interim distribution to unsecured creditors. Separately, an agreement has been signed to govern the realisation of certain assets custodied at LBIE and claimed by LBF;
- our rejection of significant aspects of the c.£9.2bn LBB claim together with initiation of legal proceedings to adjudicate those aspects of the claim, resulted in LBB consensually reducing the continuing quantum of its claim to c.£0.6bn;
- c.£0.9bn further cash has been realised from House assets;
- a further 525 Claims Determination Deeds were issued to creditors with an aggregate value of c.£2.3bn (c.£6.5bn to date) and 377 claims (c.£1.3bn) were agreed in the period (732 claims totalling c.£3.9bn to date);
- the BTB proceedings were heard and judgment was handed down, which was found against LBIE. An appeal has been lodged and will be heard in December 2012. Should LBIE be successful on appeal and the BTB side letter be held to be valid, then LBIE will be entitled on certain 'back-to-back' trades to settle with LBF at the same value that it settles the Street trade, thereby being able to recover further indebtedness from LBF, unless previously settled consensually between the parties;
- preparation was made for the Extended Liens UK High Court application, which commenced on 27 September 2012. Judgment is now awaited. These proceedings could have a material impact on LBIE's own recoveries, as well as on recoveries by certain Affiliates whose assets are currently held by LBIE;
- c.1,100 lines (c.£0.3bn) of Client Assets were returned in the period (c.£13.5bn combined returns and collateral releases to date);
- our CME principles were published following the UK Supreme Court judgment and we began to issue CM Determinations in respect of specific counterparty positions;
- our reassessment of LBIE's Tracing obligations following the UK Supreme Court judgment and development of the Administrators' CME principles together with counterparties' initial reactions to these has enabled the Administrators to reduce the dollar and euro amounts being retained with potential Tracing 'taint'. Therefore, significant dollar and euro funds have been converted to sterling in the period. As a result of this further work, we are also now able to provide an illustrative range for the potential Client Money impact in our indicative financial outcome statement; and
- a Small Claims Settlement Offer was made to provide the option of a one-off payment to eligible creditors, in full and final settlement of their unsecured claims.

Financial update

The updated indicative financial outcome set out in this report includes illustrative claims and recoveries relating to Affiliates and to aspects of Client Assets and Client Money, which continue unresolved, but which will ultimately have a material impact on the outcome for creditors.

Subject to the very important caveats and assumptions set out in this report, the potential range of House recoveries that could eventually be available for distribution to unsecured creditors is estimated to be between c.£8.1bn and c.£14.2bn and the potential range of ordinary unsecured claims is estimated to be between c.£15.0bn and c.£54.6bn.

In the period since our last six-monthly report, the Low case scenario has deteriorated significantly due to:

- i. the large and unanticipated increase in Affiliate claims, the majority of which LBIE would hope to be able to deny in due course;
- ii. an increase in third party claims caused by the large number of Proofs of Debt filed immediately before the 31 July 2012 bar date; and
- iii. the impact of Client Money.

The High case scenario shows a marginal overall increase in outcome for ordinary unsecured creditors. This reflects an updated estimate of the negotiated LBI settlement terms (increased recoveries and reduced Client Assets claimant shortfalls), offset in large part by an increase in certain other Affiliate creditors' claims.

Readers of this report should be aware that there remains upside and downside sensitivity to these outcome ranges, particularly arising from Affiliate relationships.

In the High case scenario, when assessed on a percentage recovery basis for ordinary unsecured creditors, the potential recovery has moved closer to par. Multiple, simplifying assumptions have been made in deriving this illustrative outcome and because of the significant resulting uncertainty around there eventually being such a high level of recovery, we intend to consider the relative ranking of interest on unsecured claims versus subordinated debt at a future point in time, when the range of potential outcomes for unsecured creditors has narrowed significantly.

As before, we caution readers that the Low case indicative outcome does not represent the prospective amount of a first interim dividend.

Critical Administration work streams

The three most critical work streams continue to be:

Affiliates – agreeing claims between LBIE and its Affiliates.

Creditors' claims agreement – agreeing non-Affiliate claims against LBIE.

Client Money – establishing CME, recovering Client Money funds and distributing these to claimants.

Against these priorities, the focus of the Administrators is to facilitate first interim distributions for unsecured creditors and Client Money claimants as soon as possible. In the case of unsecured creditors, we are targeting to do this on or around 30 November 2012, albeit no guarantee of this can be given until the settlement on the LB Lux Administration expense claim becomes unconditional. A first interim distribution to Client Money claimants is likely to take place in the first half of 2013.

Court update

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

During the reporting period, the BTB matter has been heard at first instance and an appeal has been made by LBIE. Preparation has also been made for the Extended Liens hearing, which was begun in late September (see Appendix C) and concluded on 4 October 2012.

Currencies and investment policies

Volatility in the financial markets has not abated in the last six months and our investment policies continue to focus on keeping the estates' funds secure, utilising a combination of money market deposits and appropriate government securities.

As previously reported, following the UK Appeal Court Client Money ruling in 2010, the Administrators halted the conversion of House recoveries into sterling, mindful of the potential need to trace into House funds in order to recover Client Money in due course. Following the subsequent UK Supreme Court ruling, the Administrators' establishment and publication of a set of CME policies and the further review of monies recovered during the course of the Administration, we were able to conclude that we could convert further amounts of dollars and euros into sterling. This exercise was completed in early September and a notice to that effect was published on the website on 14 September 2012.

Major currency holdings that are still retained by LBIE and a summary of the Administrators' investment policies is set out at Appendix B.

Human resources

As at 14 September 2012, the LBIE staff and contractor headcount was 506 (503 at 14 March 2012).

Route to first interim distributions

As previously reported, we applied to the UK High Court on 2 May 2012 and it ordered that the last date for proving in respect of the first distribution to unsecured creditors be brought forward to 31 July 2012 (the bar date), and that the Administrators declare a first interim distribution to unsecured creditors within five months of the bar date.

Despite a number of earlier requests for creditors to file their claims ahead of time, there were many Proofs of Debt filed immediately prior to the bar date (712 over the course of July 2012 alone). Work is ongoing to review and engage with as many of these claimants as possible ahead of the cut-off for declaring the first dividend. Only claims admitted by 31 October 2012 will qualify for the first interim dividend.

There is currently no CM Bar Date. We are keeping this matter under review and if, at some future point in time, we consider that there will be material benefit to the eventual resolution of the Client Money issues by the introduction of a CM Bar Date, then an application will be made to the UK High Court. We will provide further guidance on this matter in due course.

Progress with the \$1 billion+ issues

At Appendix D to this report, we set out a brief summary of the current status of the \$1 billion+ issues on which we have previously reported to creditors. Given that the priorities of the Administrators have evolved significantly since their first publication, we do not intend to report on these issues in this way in future reports.

Section 3:

Financial update

Indicative outcome and basis of preparation

For the purposes of this report, in the table on page 9 we have provided indicative outcome ranges for the House Estate on a basis consistent with that included in our last report, save for the inclusion now of estimates for the impact of Client Money on the House Estate.

The indicative financial outcome has been prepared on a generally prudent basis. There continue to be 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

LBIE originally filed Omnibus (on behalf of clients) and House Customer claims against LBI in early 2009. These claims have been subject to contemporaneous litigation and settlement discussions. LBI formally filed its own claim against LBIE, in the sum of c.£7.7bn (including an amount in respect of Client Money) ahead of the 31 July 2012 bar date.

Heads of terms were signed on 4 October 2012, incorporating a binding claims reserve agreement which enables LBIE and LBI to reduce their overall reserve for claims from each other. Over the coming weeks, a detailed settlement agreement will be negotiated between the Administrators and the LBI Trustee.

In the indicative financial outcome Low case scenario, we have reflected improvements derived from the reserving agreement and in the High case scenario we have reflected an updated estimate of the impact of the outline terms of settlement that are set out in the heads of terms.

The negotiated settlement includes:

- i. a very significant quantity of securities, the value of which remains at risk;
- ii. a major LBI General Estate claim, the dividend on which is uncertain; and
- iii. a major potential Client Money claim, the value of which is uncertain.

Accordingly, our estimation of the full financial impact of the settlement will remain subject to change until these various issues crystallise in due course. See Sections 6, 8 and 9 of this report for further information relating to LBI.

We wish to emphasise that the indicative financial outcome is based on the heads of terms, which are non-binding at this stage, other than with regard to the reserving impact.

2. Other Affiliates

Withdrawal of the majority of the LBB claim in the period and eventual resolution of the claims made by LBF, LBEF, LBB, LBI and LB Lux will have a material impact on the final outcome. Very large claims were made by each of these and significant progress has subsequently been made towards reducing or withdrawing some of these. Further details of the filed claims are included in Section 6.

3. Client Money

For the first time in our communication with creditors, we include an assessment of the potential impact that issues relating to pre-Administration CME might have on funds that will be available to unsecured creditors and on the quantum of unsecured claims against those funds. It is important to know that these estimates are subject to continuing uncertainties in determining CME and Tracing which will remain until there is further legal clarification or consensual resolution between the affected parties.

In the Low case scenario, we assume a significant taint on House cash recoveries, offset in part by a reduction in unsecured claims. In the High case scenario, we assume a net impact of immaterial value to the House.

Summary

The Low case scenario indicative outcome has materially worsened since our previous report, largely because of the effects of Client Money and the unexpectedly high claims that were lodged by certain Affiliates, ahead of the 31 July 2012 bar date. Until these claims are agreed at a reduced amount, fully withdrawn or successfully rejected, provision is made for them in full, in this scenario.

The High case outcome indicates a marginal improvement on the position reported six months ago reflecting the LBIE/LBI settlement terms, offset in part by increased claims from other Affiliates.

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, or to predict the quantum of the first interim distribution to unsecured creditors.

Indicative financial outcome

We set out in the table below a high level analysis showing our current view of the Low and High case financial outcome scenarios. 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.

Page	House Estate	Notes	Low £bn	High £bn
42	Cash deposits and short-dated government bonds		11.0	11.0
	Net Client Money impact	1	(1.6)	–
Projected future recoveries				
14	Third party debtors		0.2	1.6
17	Affiliate debtors		0.1	1.5
15	House depot securities		0.4	0.5
	Client Assets claimant debtors	2	–	0.8
	Other	3	–	0.2
	Total projected recoveries		10.1	15.6
	Priority claimants	4	(0.5)	(0.2)
	Future estimated costs	5	(1.5)	(1.2)
	Funds available for unsecured creditors		8.1	14.2
Creditors				
22	Unsecured creditors		(17.4)	(12.4)
29	Client Assets claimant shortfalls	6	(2.8)	(0.5)
17	Affiliate creditors		(35.4)	(2.1)
	Net Client Money impact	1	1.0	–
	Total ordinary unsecured claims		(54.6)	(15.0)
	Subordinated debt	7	(1.7)	(1.7)
	Total creditors		(56.3)	(16.7)

Movements in current indicative financial outcome

The table below provides an overview of the movements in the indicative outcome from those shown in our last report.

Movements in indicative financial outcome March 2012 – September 2012	Low £bn	High £bn
Deficiency for ordinary unsecured claims at March 2012	(38.4)	(1.3)
Deficiency for ordinary unsecured claims at September 2012	(46.5)	(0.8)
(Worsening)/improvement in outcome	(8.1)	0.5
Represented by:		
Cash deposits and bonds	0.2	0.2
Net Client Money impact (not previously quantified)	(0.6)	–
Projected future recoveries	(0.3)	0.7*
Priority claimants & future estimated costs	0.3	(0.1)
Affiliate creditors	(6.6)	(1.0)
Unsecured creditors	(1.1)	–
Client Assets claimant shortfalls	–	0.7*
(Worsening)/improvement in outcome	(8.1)	0.5

* The majority of these improvements relate to the settlement terms negotiated with LBI.

Notes to Indicative financial outcome

1. Net Client Money impact

This has been included in our indicative financial outcome for the first time.

Low case scenario

The deduction of c.£1.6bn from House funds represents amounts that have been identified as potential Client Money currently held in the House account. These funds are held in the currency of receipt, pending clarification of their ultimate beneficial ownership. At the date of this report, these amounts were c.€1.2bn, c.\$0.5bn and c.£0.3bn.

The Low case scenario also reflects the corresponding benefit of the transfer of certain claims out of the House Estate and into the Client Money estate, following the UK Supreme Court ruling. This benefit is offset to some degree by an assumed Client Money shortfall claim that will fall back into the House Estate. This shortfall is based on the following indicative financial outcome for the Client Money estate.

Client Money balance sheet		Potential impact on House Estate
Low case scenario	\$bn	£bn
Recoveries		
Within LBIE control	1.1	–
LBHI guarantee	0.2	–
Tracing into House Estate	2.6	(1.6)
Potentially available for return	3.9	–
CME		
Entitlements following the UK High Court ruling	(1.6)	–
Potential increase in entitlements following the UK Supreme Court ruling	(3.5)	2.0*
Potential CME	(5.1)	–
Potential shortfall following UK Supreme Court ruling	(1.2)	(0.7)
Offset by:		
Shortfalls reserved in House Estate post UK High Court ruling	–	0.3
Client Money claims not previously reserved as House creditors	–	(0.6)*
Net impact on House creditors	–	1.0

* In general, post UK Supreme Court CME claim increases result in identical reduction to unsecured House claims. However for c.£0.6bn of claims, this is not the case.

High case scenario

The High case scenario has been compiled using assumptions for LBI and LBF that are consistent with those used elsewhere in this report. In addition, we have assumed CME is determined in accordance with LBIE's principles and that LBIE is successful in its efforts to recover under its claims into the LBB estate.

In this scenario, our estimates indicate that the Client Money pool would hold sufficient funds to allow claimants with a valid CME to be paid in full with an immaterial net impact on unsecured creditor claims amounts and on House funds available for distribution.

The Administrators will continue to review and update these estimates as progress is made in the resolution of pre-Administration Client Money, including the agreement of CM Determinations.

2. Client Assets claimant debtors

A certain level of House recoveries is expected to arise from liens over assets that would otherwise be returned to Client Assets claimants. These assets are principally held by LBI.

3. Other

Other future recoveries largely represent potential further refunds of tax paid in periods prior to commencement of the Administration. No provision has been included for any corporation or income tax payable in the Administration period, on the assumption that any liabilities arising from the Affiliate settlement agreements or post-Administration income will be sheltered by tax losses. The tax losses position is based on available LBIE records and is subject to agreement with HMRC.

4. Priority claimants

Priority claimants include the potential pension fund deficit liability, certain indemnities given post-Administration and other potential claims that might crystallise in certain circumstances and rank for payment in priority to ordinary unsecured creditors. The LB Lux claim is reflected in the Low case scenario only, where it is treated as an unsecured claim rather than as an expense, although following the recent conditional settlement agreement, our expectation is that this amount will be removed, save for a c.£0.1bn unsecured claim, in the near future.

5. Future estimated costs

The progress made over the past six-month period has enabled us to refine further our planning of future Administration activities and related effort, specifically with respect to resolution of issues relating to LBI, Client Money, unresolved debtors and creditors, and potential litigation. We have also considered plans for infrastructure, resource and property rationalisation, as we continue to drive simplification and eventually start to scale down the Administration.

The Low case scenario costs have reduced marginally since the last progress report (although this is not apparent in the indicative financial outcome statement after rounding), and the difference between the Low and High case outcomes has reduced, reflecting a more detailed forecast based on developments with regards to the major issues.

6. Client Assets claimant shortfalls

Pending the return of assets from LBI, there is the potential for material shortfalls on Client Assets returns. Reflecting this, many claimants have filed cautionary, unsecured claims for anticipated shortfalls, ahead of the 31 July 2012 bar date. We have used our own prudent assumptions to estimate the shortfalls that might arise in due course, for the purpose of the Low and High case scenario outcomes that are set out in this report to creditors.

7. Subordinated debt

This relates to amounts claimed by LBL (c.£0.4bn) and LB Holdings Intermediate 2 Limited (c.£1.3bn). The increase in subordinated debt reflects Proofs of Debt filed in the period.

The Administrators will consider the relative ranking of subordinated debt and interest on unsecured claims in due course, to the extent necessary, once the range of estimated outcomes has narrowed considerably.

Section 4:

First interim distributions

Introduction

We outlined in our seventh progress report the steps that the Administrators and counterparties would need to take ahead of a declaration of first interim distributions to both unsecured creditors and Client Money claimants.

Progress and developments in the past six months are set out below. Significant resource continues to be deployed in order to advance the process and to maximise the population of counterparties eligible to participate in due course.

Unsecured creditors

Timing for filing of Proof of Debt submissions

Following an application on 2 May 2012, the UK High Court granted the Administrators' requests to:

- bring forward the bar date for the first interim distribution to 31 July 2012;
- extend the period during which the first interim dividend must be declared from within two months of the bar date, to within five months of the bar date; and
- extend the period during which the Administrators are required to admit, reject or make provision for Proofs of Debt submitted by unsecured creditors from a period of seven days after the bar date, to three months after the bar date.

The bar date for the first interim distribution has now passed and a significant increase in the filing of Proofs of Debt occurred in July 2012.

The claims agreement process

The Administrators have much work remaining to agree and admit the unsecured claims lodged prior to the bar date. The submission of a compliant Proof of Debt by the bar date does not guarantee that the claim will be capable of determination and/or agreement prior to the first interim distribution. In particular, as previously reported, where creditors have rejected offers under the Consensual Approach, these are highly unlikely to be resolved before the first interim distribution.

Efforts are continuing to resolve certain large claims from Affiliates where the Administrators consider them to be materially overstated.

Assuming that the LB Lux Administration expense claim issue is resolved, from a logistical perspective, the last practical date for agreement of claims for inclusion in the first interim distribution will be 31 October 2012. Any claims admitted after this date will be likely to miss the first interim distribution and will need to wait for a 'catch up' dividend of the same rate but paid later. Further guidance on timing will be given in due course.

Declaration of a dividend

By 31 October 2012, for all compliant Proofs of Debt received by the bar date, the Administrators will either admit, reject or make an appropriate reserve for claims which remain under consideration. Reserves will also be made for other relevant contingencies, including any relating to Client Money issues, such as Tracing.

It is currently anticipated that the first interim dividend will be paid on, or around, 30 November 2012 to creditors with admitted claims.

Pursuant to the Insolvency Rules, all unsecured creditors who have proved their debts will receive a written notice of declaration of a dividend prior to the distribution, setting out certain matters including the dividend rate, the total amount of dividend being distributed to admitted claims and the level of reserves for unsettled claims.

Key issues impacting the level of the dividend

The level of the dividend has yet to be determined in order to allow as much time as possible to progress claims. This particularly reflects the continuing uncertainties regarding:

- the success of our efforts to reduce the remaining material inbound Affiliate claims; and
- the level of reserves required for other claims not yet agreed.

Client Money claimants

The Administrators also continue to prepare for the payment of a first interim dividend to Client Money claimants, albeit this is dependent upon resolving CME. Efforts continue to recover Client Money from certain third parties, which would enhance the recovery to Client Money claimants.

Further guidance on the process for the filing and agreement of Client Money claims will be provided in due course, and the Administrators hope to be able to make a first interim distribution of Client Money in the first half of 2013.

Section 5:

House Estate

Highlights

- Settlement of a further 109 debtor groups (c.£0.1bn collected), including six in the 'top 150'.
- Realised c.£0.3bn, which includes c.£0.2bn from the sale of House securities.

House third party debtors

Debtors (excluding Affiliates) within the House Estate comprise the following:

	Cpty No.	Recoveries to date £bn	Indicative future recoveries	
			Low £bn	High £bn
Street counterparties	1,691	5.8	0.2	1.5
Exchanges	37	1.3	–	0.1
Client Assets claimants	110	0.1	–	–
Total	1,838	7.2*	0.2	1.6

* In the period, there were adverse exchange rate movements of c.£0.2bn on balances previously recovered in foreign currencies (c.£0.1bn Street counterparties; c.£0.1bn Exchanges).

Street debtors are discussed below.

Receivables from Exchanges principally relate to funds receivable from a Taiwanese counterparty (see overleaf).

Receivables from Client Assets claimants represent amounts due to LBIE in excess of those secured by Client Assets liens. Recoveries under liens are included in the indicative financial outcome with Client Assets claimant debtors.

Street counterparties

Focus

The primary focus in relation to Street debtors continues to be the resolution of outstanding issues in relation to the 60 remaining 'top 150' groups, targeting those counterparties where it is believed there is significant additional cash to collect.

In addition to prioritising debtors based on value, the Administrators have progressed other Street counterparties, who have submitted Proofs of Debt.

Indicative future recoveries from Street counterparties are summarised as follows:

			Mid mkt LBIE	Cash	Required adjustments		Indicative future recoveries	
	Cpty No.	Group No.	value £bn	rec'd £bn	Low £bn	High £bn	Low £bn	High £bn
Top 150 groups:								
Completed	274	90	5.0	(3.8)	(1.2)	(1.2)	–	–
Not completed	224	60	4.6	(1.6)	(2.8)	(1.5)	0.2	1.5
Other Street debtors:								
Completed	518	377	0.3	(0.3)	–	–	–	–
Not completed	675	581	0.3	(0.1)	(0.2)	(0.2)	–	–
Total	1,691	1,108	10.2	(5.8)	(4.2)	(2.9)	0.2	1.5

The indicative future recoveries in the table above provide LBIE's current view of the mid-market value as at the termination date, where terminated, or an estimate of the value in respect of any remaining live positions.

Required adjustments represent revisions for bid/offer spreads, credit charges, pricing variances, bad debt provisions and other commercial differences arising during negotiations.

Progress

As at 14 September 2012, c.£5.8bn of cash and other collateral had been recovered from Street debtors. Of this amount, c.£4.1bn has been recovered from settled counterparties and c.£1.7bn had been received on-account where final settlement negotiations or litigation is ongoing.

A total of c.£0.1bn of cash was recovered during the period, offset by adverse exchange rate movements of c.£0.1bn on balances previously recovered in foreign currencies. The amounts recovered in local currency are re-translated to sterling every reporting period.

Settlements were reached in the period with six 'top 150' debtor groups and further settlements were reached with 103 other groups.

Litigation

1. Non-mutual set-off

As stated in the last progress report, LBIE was preparing to commence legal proceedings against counterparties in relation to disputes over non-mutual set-off.

No proceedings have yet commenced, as the Administrators have continued over the period to seek consensual resolution of the issue where it has arisen. To date, LBIE has achieved a number of such settlements, in part because of the strength of its legal arguments, and in part assisted by the seemingly robust secondary market in LBIE unsecured

claims, which has meant counterparties have become more willing to consider 'unwinding' non-mutual set-off and then trading the resulting unsecured claim(s). The Administrators continue to pursue this issue, but it is unclear whether litigation will be required to resolve any remaining disputes.

2. ISDA Section 2(a)(iii)

Following the UK Appeal Court judgment regarding payment obligations on certain live derivative positions, during the period the respondents applied for leave to appeal to the UK Supreme Court, with a decision still pending. In the period, LBIE agreed a commercial settlement with one of the respondents. The Administrators are seeking commercial solutions with other respondents where possible.

3. Korea and Taiwan

LBIE continues to face a number of legal challenges in Korea and Taiwan from counterparties who are effectively seeking to 'pierce the corporate veil' in an attempt to recover from LBIE their losses incurred in dealing with other Affiliates. Whilst the Administrators continue to pursue and defend litigation in these territories, they are also seeking consensual settlements where possible. Across Korea and Taiwan, some c.£0.6bn of assets are at risk, comprising:

- Street receivables – c.£0.2bn (assumed £nil recoveries on a Low case outcome, c.£0.2bn in a High case);
- Exchange receivables – c.£0.1bn (assumed £nil recoveries on a Low case outcome, c.£0.1bn in a High case); and
- House assets – c.£0.3bn (assumed £nil recoveries on a Low case outcome, c.£0.1bn in a High case).

4. AG Financial Products Inc

In the six months ended 14 April 2012, the Administrators commenced litigation against AG Financial Products Inc, relating to an OTC derivatives valuation dispute (amount claimed: c.\$1.4bn/c.£0.9bn). Preparations for substantive hearings in late 2012 and 2013 have continued in the last six-month period. On a Low case outcome, no recovery is assumed, in a High case c.£0.9bn.

5. Other litigation

A small number of other, less material disputes are currently being litigated by the Administrators. In addition, for the majority of the 'top 150' debtor groups that have not yet been settled, significant and complex issues remain to be addressed. For a number of these, preparation to commence legal proceedings is underway. The Administrators are mindful that commencing litigation in these cases will result in extended timescales and costs, and therefore this will only occur once all other reasonable routes to settlement have been exhausted.

House securities

Focus

LBIE's primary focus in respect of House securities continues to be the risk management and orderly realisation of assets available for sale.

In addition, LBIE continues to pursue the recovery of assets held by third party and Affiliate custodians.

Progress

As at 14 September 2012, House securities can be categorised as follows:

		Mar 12	Sep 12	Indicative financial outcome	
	Note	£bn	£bn	Low £bn	High £bn
Available for sale	1	0.7	0.5	0.4	0.4
Held subject to client disputes	2	0.2	0.1	–	–
Held subject to Affiliate disputes	2	1.0	1.2	–	–
Residual assets held at Citibank	3	0.2	0.2	–	0.1
Total claims		2.1	2.0	0.4	0.5

1. c.£0.2bn was realised from the sale or redemption of 'available for sale' securities.
2. Assets held subject to client or Affiliate disputes are securities to which a client or an Affiliate has an ownership claim, notwithstanding the fact that they were held by LBIE in a 'House' account prior to insolvency. Movements in the period reflect returns to clients and Affiliates, pricing changes and re-classifications of assets between 'available for sale' and held subject to client/Affiliate disputes.
3. Principally relates to the dispute in Taiwan referred to alongside.

The indicative financial outcome estimates for available for sale and assets held in Taiwan reflect adjustments for illiquid and potentially irrecoverable assets. The assumption underlying the estimates for securities held subject to client/Affiliate disputes is that the majority will be returned to the third parties.

Section 6:

Affiliates

Highlights

- Substantially increased engagement with LBI in settlement discussions, whilst meeting pre-trial discovery obligations in relation to LBIE's objections to the LBI Determination. Non-binding heads of terms and binding agreement on reserving reached with LBI on 4 October 2012.
- Continued progress with LBF to settle its overall relationship resulting in signing of an interim management agreement to cover c.£0.6bn of assets custodied by LBIE. LBF also filed a c.£11.2bn claim ahead of the July 2012 bar date.
- The Luxembourg entities filed claims in July 2012 totalling c.£20.6bn, including c.£11.5bn asserted to be an Administration expense claim. A conditional withdrawal of this Administration expense claim was secured on 4 October 2012.
- Additional resource deployed on a twin-track basis to address the unexpected Affiliate claims by:
 - initiating discussions to explore the scope for consensual reduction of claims; and
 - assessing and implementing expedited adjudication of claims through the UK High Court.
- Partial settlement achieved with LBB to withdraw c.£8.6bn from its inbound claim of c.£9.2bn.
- The BTB and Extended Liens litigation progressed, with judgments expected within the next six months.
- c.£0.1bn of first interim dividends received from LBHI and its US debtor affiliates.

Focus

LBIE continues to focus on resolution of the material Affiliate relationships, including the return of assets and/or the agreement of inbound or outbound claims.

Priority areas are:

- progressing LBI settlement discussions to a conclusion, whilst maintaining the US litigation option;
- settlement negotiations with the Luxembourg liquidators to agree the withdrawal of the LBEF and LB Lux unsecured and Administration expense claims;
- discussions with LBF to reach a consensual settlement, whilst progressing the BTB legal proceedings in the event settlement cannot be achieved (whereas the Extended Liens matter will proceed regardless of settlement with LBF) and to secure a material reduction in LBF's newly-filed claim;
- agreeing the asset entitlements of Affiliates, in anticipation of returning assets and calculating unsecured shortfall claims thereon; and
- engaging with as many other Affiliate claimants as possible to agree their claims and thereby maximise the qualifying population that is able to participate in the first interim distribution to unsecured creditors.

Progress

A number of significant Affiliate inbound claims were filed against LBIE during July 2012, immediately prior to the bar date for the first interim distribution.

LBIE was a key operating company within the Lehman group and certain Affiliates would appear to be asserting reliance upon that role in an effort to hold LBIE accountable for the obligations of others. With the LBIE bar date looming, those Affiliates have filed exaggerated claims against LBIE.

Several of these claims filed would appear to be misguided, or speculative and, in one case, to have only tenuous links to LBIE.

In certain instances, LBIE, under contract, provided limited services to these and other Affiliates. Certain of these Affiliates' insolvency officeholders have filed antecedent transaction claims and/or 'corporate responsibility' claims against LBIE. The Administrators believe these claims are opportunistic and lacking in credibility.

LBIE continues to review how it can manage these claims in the most effective way, in order to minimise the disruption that they might cause to the planned first distribution to unsecured creditors.

In the event that adequate progress cannot be made ahead of 31 October 2012, then the first interim distribution to unsecured creditors could be dramatically reduced or delayed to allow sufficient time for these claims to be resolved.

The tables overleaf illustrate LBIE's current view of the range of outcomes from its Affiliate relationships as debtors and creditors as at 14 September 2012.

Debtors

Affiliate debtors comprise settled and unresolved relationships, with an indicative range of financial recovery outcomes (i.e. eventual recoveries from claims against other Affiliate estates) as summarised below.

	Mar 12 Low £bn	Sep 12 Low £bn	Sep 12 High £bn
Outbound claims			
Unresolved relationships (note 1)	0.8	1.9	4.9
Settled relationships (note 2)			
LBHI (note 3)	0.7	0.7	0.7
LBHK (note 4)	0.6	0.6	0.6
Total claims	2.1	3.2	6.2
Estimated recoveries	0.2	0.1	1.5

1. Relationships with those Affiliates where settlement discussions are at various stages of progress.
2. Relationships with those Affiliates where settlement terms have been agreed, finalised and ratified by the relevant parties. Agreed claims reflect the terms of the settlements reached.
3. For the purposes of the table above, LBHI includes its US debtor affiliates which were also formerly in Chapter 11, except for Merit LLC.
4. LBHK includes seven entities set out in Appendix A.

Debtors – unresolved relationships

The unresolved relationship claim amounts have been revised to reflect LBIE's view of these amounts, taking into account prospective heads of terms and settlement agreements as they are currently contemplated. Accordingly, the spread of claims in the period has narrowed as compared to the prior period of c.£0.8bn and c.£11.6bn. LBI is shown as an unresolved relationship in respect of LBIE's House claim.

Debtors – settled relationships

LBHI and its US debtor affiliates formerly in Chapter 11

On 17 April 2012, LBHI and certain of its US debtor affiliates paid their first dividend to unsecured creditors. LBIE received c.£0.1bn.

Based on information previously filed by the entities, LBIE estimates that it may realise a further c.£0.1bn from these sources in due course. Further smaller interim dividends were paid on 1 October 2012, albeit it is expected to take some considerable time before all realisations have been made.

LBHK

As previously reported, the return of assets from LBHK to LBIE (c.£0.6bn) remains contingent on the outcome of the UK High Court Extended Liens application and LBHK's own local proceedings regarding the same matter.

Creditors

Affiliate creditors comprise settled and unresolved relationships, with an indicative range of financial outcomes (i.e. admitted claims) as summarised below.

	Mar 12 Low £bn	Sep 12 Low £bn	Sep 12 High £bn
Inbound claims (note 1)			
Unresolved relationships (note 2)			
LB Lux	(7.9)	(11.8)	(0.1)
LBEF	–	(8.8)	(0.1)
LBF (note 3)	(2.0)	(11.2)	–
LBB (note 4)	(8.6)	(0.6)	–
LBJ	(0.3)	(0.3)	(0.3)
Others	(0.8)	(1.5)	(0.9)
Settled relationships (note 5)			
LBI (note 6)	(8.8)	–	–
LBHI (note 7)	(0.1)	(0.1)	(0.1)
LBHK (note 8)	(0.2)	(1.0)	(0.5)
LBS	(0.1)	(0.1)	(0.1)
Total claims	(28.8)	(35.4)	(2.1)

1. Inbound claim balances in currencies other than sterling are translated at exchange rates as at 15 September 2008.
2. Relationships with those Affiliates where settlement discussions are at various stages of progress.
3. The March 2012 Low case estimate of c.£2.0bn was LBIE's own estimate of a claim for LBF. The September 2012 Low case estimate is the claim value as filed.
4. The LBB September 2012 Low case estimate reflects the benefits achieved in withdrawal of the majority of its claim. c.£0.6bn represents its Client Money related counterclaim, which remains unresolved.
5. Relationships with those Affiliates where settlement terms have been agreed, finalised and ratified by the relevant parties. Agreed claims reflect the terms of the settlements reached.
6. The LBI September Low case estimate reflects the benefits achieved in the binding reserving agreement on 4 October 2012.
7. For the purposes of the table above, LBHI includes its US debtor affiliates which were also formerly in Chapter 11, except for Merit LLC.
8. LBHK includes seven entities set out in Appendix A.

Creditors – unresolved relationships

Luxembourg entities

LB Lux

Creditors may recall that the significance of LBIE's outbound litigation against LB Lux in respect of the dispute over the OSLA changed following the settlement concluded with LBHI last year. Since then, we have engaged constructively with LB Lux and LBHI.

As a necessary step in this process, we have also worked with LB Lux to agree the terms upon which our litigation may be concluded. In the interim, the LB Lux counterclaim remains in place. The Proof of Debt filed by LB Lux in July 2012 in response to the imminent bar date includes the counterclaim plus an additional claim of c.£8.1bn. This new claim relates to the alleged post-Administration failure of LBIE to continue with the pre-Administration provision of services to LB Lux. c.£11.5bn of the claims is asserted by LB Lux to be an expense claim in the Administration, but with no meaningful explanation provided to date. If valid, this claim would need to be paid in priority to unsecured creditor claims.

LBIE considers this claim would be a provable debt rather than an Administration expense claim, if it was valid at all. Notwithstanding the otherwise good progress made towards resolution of the many matters outstanding in the LB Lux estate, our energies have more recently been diverted to achieving a consensual withdrawal of these claims against LBIE before the first interim distribution. The parties agreed a form of conditional settlement (with LB Lux substantially withdrawing its claims) that requires approval of LB Lux's creditors and its supervisory court before it becomes unconditional and effective. Notices to this effect have been given and the Administrators are monitoring developments closely. If the planned timeline is met and no objections are made, the settlement should become effective on or around 31 October 2012. Regrettably, LB Lux states that it is unable to withdraw unilaterally its Administration expense claim ahead of the settlement becoming unconditional. Accordingly, the Administrators have issued proceedings in the UK High Court to challenge the claim, filed as an Administration expense claim, as a precaution in the event that the settlement is delayed.

As part of the settlement, LBIE has agreed to admit LB Lux as an unsecured creditor for c.£61m (subject to preserving the right of LB Lux to claim for Trust Property). Under the terms of the LBHI settlement, LBIE could recover in the region of c.£0.2bn indirectly from LB Lux in due course.

The resolution of the LB Lux Administration expense claim above is a critical step to being able to pay a first interim distribution within the proposed timetable.

LBEF

Prior to the final date for proving, LBEF was considered to be a minor Affiliate with minimal interaction with LBIE, but without any meaningful notice, LBEF filed a Proof of Debt of c.£8.8bn in July 2012. This claim principally represents the full nominal value of unfunded warrants issued by LBEF that were outstanding at the date of its insolvency. A smaller balance of c.£1.1bn relates to a purported derivatives exposure.

The information available to the LBEF officeholders was apparently limited and therefore their approach was to file a protective claim and then seek to engage with LBIE to understand better the relationship and the quantum of claim, if any. The Administrators are assisting LBEF in understanding its position, with a view to securing an early withdrawal of the claim.

LBIE understands that the claim mainly relates to a series of equity warrants that were outstanding at the date of the LBIE Administration. Approximately half of these warrants were arranged through LBIE and the balance through LBI. LBEF has claimed against LBIE in respect of all of the warrants, regardless of the arranger.

At this stage, given the overlap of officeholders for both Luxembourg entities, the greater significance of the LB Lux Administration expense claim and the potentially adverse impact that claim could have on the planned distribution, we have requested that the Luxembourg liquidators focus on resolution of the LB Lux claims rather than the LBEF claim.

Once the LB Lux claims are resolved, consensually or otherwise, the Administrators will seek a consensual settlement that sees the return or cancellation of the LBEF warrants within LBIE's control, leading to removal of the associated LBEF claim, and the immediate withdrawal of the LBI-related claim component. LBEF has given provisional support to this way forward. A small residual balance of less than c.£0.1bn may remain to be considered as a claim against LBIE in due course. In the event that it becomes clear that this course of action looks unlikely to succeed, then formal steps to reject the vast majority of the claim would be commenced.

Accordingly, it is highly likely that this claim will be unresolved at the time of calculation of the first interim distribution and, as such, appropriate provision will be made for it.

LBF

LBIE's relationship with LBF is amongst the most complex of any of LBIE's counterparties. During the period, LBIE continued with its dual strategy of progressing its claims by litigation of the BTB and Extended Liens matters, while increasing the dialogue with LBF to develop a framework for an overall settlement.

After a series of interactions, it seemed likely that we would be able to develop a workable approach to an overall settlement. There have been a number of challenges faced subsequently in finalising the agreement that has been reached in principle. The due diligence needed to be undertaken by LBF has been comprehensive given the high number and complexity of the transactions requiring investigation, and this activity is presently nearing finalisation. The approval process and consents needed from LBF's creditors have also required careful planning. Progress has not been as rapid as either side would have wished, but the parties continue to work through the necessary steps to finalise an agreement. As a positive step in this process, an interim management agreement was signed in September 2012 to enable the assets custodied by LBIE to be realised pending distribution between the parties.

When it became clear that a settlement was unlikely to be reached ahead of LBIE's final date for proving claims, LBF began discussing the components of a claim that it would need to file as a protective measure. LBIE's view was that the claim should be limited to the open issues of its financing and other trading relationships, but LBF decided that the scope for the claim should be widened to include heads of claim connected with an alleged breach of corporate duties (in part under formal contracts for provision of services and in part for other more general heads of claim). LBF filed a Proof of Debt of c.£11.2bn in July 2012, which LBIE contends includes a number of duplicated items and some heads of claim that are not provable at this time or at all.

LBIE has reprioritised its focus and engagement with LBF to ensure that appropriate priority is given to reducing the value of the filed claim or agreeing a significantly lower amount, whilst also seeking to progress the settlement.

LBB

After lengthy negotiations with LBB, LBIE has entered into a partial settlement agreement pursuant to which a number of very significant claims between the parties have been withdrawn. This has enabled the LBB inbound claim as submitted of c.£9.2bn to be reduced by c.£8.6bn.

The settlement agreement does not affect the LBIE Client Money outbound claim or the LBB counterclaim of c.£0.6bn (discussed in Section 9), which are still subject to German court proceedings.

LBIE will continue to work with LBB to agree the final net unsecured balance between them, which LBIE anticipates will be in its favour.

LBJ

Following extensive negotiations, progress has been made towards agreement in principle as to the terms and related indemnity required to enable the return of the final tranche of Japanese stock-lending assets (c.£0.1bn). However the lack of waivers from two entities which have asserted earlier claims against LBJ is an obstacle to concluding the agreement.

Creditors – settled relationships

LBI

Settlement discussions

LBI interfaces with LBIE in the House Estate, through the LBIE House Customer claim and the LBI inbound claim, and in the Trust Estate, through the LBIE Omnibus Customer claim and the LBI inbound Client Money claim.

LBIE's approach in its dealings with LBI is coordinated across these different heads of claim, with the individual components being managed and controlled by separate work streams in the Administration.

Considerable progress has been made in the period in terms of continuing to prepare for the planned litigation for LBIE's outbound House and Omnibus Customer claims and in terms of leveraging the opportunity to explore and develop settlement discussions for both of these as well as for the inbound claims from LBI. To this end, on 4 October 2012, the parties were able to take a critical first step in agreeing non-binding heads of terms covering how a settlement might be effected during the next year and how the key value items in the proposed settlement would impact the various interested parties.

Additionally, recognising each estate's important shared ambition to make first interim distributions, the parties have agreed, on a binding basis, to limit the maximum recoveries that each will make in the other's estate hereafter, in the event that a consensual settlement is not eventually completed and the respective claims need to be resolved through litigation. This measure will enhance distributions to other creditors in both estates through a reduction in the quantum of required reserves otherwise needed if the

parties had continued to assert claims to their full filed value without set-off or net equity adjustments.

A summary of the key LBIE House-related items is set out below:

Non-binding heads of terms

- LBIE's House claims stipulated on the basis of a \$0.5bn Customer Property claim and a \$4.0bn General Estate claim; and
- The LBIE House Estate is also to benefit indirectly from an assignment of LBI's Client Money claim and from retention of certain assets (subject to Extended Liens) custodied at LBIE (value: c.£0.1bn).

Binding reserving agreement

- \$2.5bn recovery reserve agreed on LBIE House Customer claim against LBI;
- £1 reserve agreed on the c.£7.7bn filed LBI inbound claim against LBIE; and
- \$1bn recovery reserve agreed on LBI Client Money claim against LBIE.

LBIE's priority is to work up the heads of terms into definitive settlement documentation and then to work with LBI and other interested parties to procure its approval through the relevant courts.

Litigation

As previously reported, LBIE had a document discovery deadline of 16 May 2012 in respect of its US litigation with LBI. During the period, the Administrators substantially completed document discovery in line with the scheduling order, producing significant volumes of documentation and relevant data.

The same delivery obligations applied to LBI and, as a result, we received many new documents from LBI throughout the period. We have made significant progress with an initial review of these documents and data. Work has also continued on preparing for depositions, consulting with expert witnesses and other litigation-related activity.

Following the signing of heads of terms, formal litigation activity has been stayed, albeit certain of our own preparations continue, in order that there is no unnecessary further delay prosecuting the claims in the US Bankruptcy Court, should the need arise in due course.

Over the past six months, the parties have been before the presiding judge in the US Bankruptcy Court and in private conferences, updating him in respect of the above litigation and associated settlement discussions. We expect this to continue in the months ahead.

Inbound claim

On 31 July 2012 we received a Proof of Debt from LBI in relation to its inbound claim of c.£7.7bn. LBI reserved its right to file claims for additional sums in due course.

This claim superseded the draft provisional claim that LBI had filed in June 2011, although there were many similarities in the basis of its preparation.

Under the binding agreement reached on reserving, LBI has agreed that this claim be admitted by LBIE for a nominal £1 in order to reduce the reserve that would otherwise be needed against the filed claim.

Omnibus Customer claim

The Omnibus Customer claim is being pursued primarily for the benefit of Client Assets claimants and is discussed in Section 8.

LBHK

LBIE has continued its work to resolve certain complex post-settlement adjustments required to finalise the inbound claim of LBHK. The submission of further claims by LBHK in July 2012 has enabled detailed work by LBIE and a revision to the indicative financial outcome previously reported, reflecting increased claims for asset shortfalls on custodied positions when assessed on a more prudent basis. This work is ongoing and a range of potential claim outcomes remains.

LBS

LBIE is still awaiting final confirmation from the court of the Netherlands Antilles (where LBS is domiciled) that there are no further inbound claims to be filed against LBIE. A court hearing is expected in November 2012.

UK Affiliates

All the major UK Affiliates expected to file claims against LBIE have done so and significant progress has been made in agreeing the balances.

A settlement agreement was concluded in the period with LB UK RE, which enabled the return of c.£0.2bn of custodied funds to it. A further settlement agreement will allow the return of a further c.£0.4bn of custodied assets to LBEL in the near future.

Other Affiliates

A settlement agreement was concluded in the period with LCI, which enabled the return of c.£0.1bn of custodied funds to it.

LBIE continued its engagement with other Affiliates, with the objective of encouraging submission of Proofs of Debt in advance of the bar date and maximising the number of claims agreed.

Excluding the Affiliates specifically referred to above, a total of 75 Affiliates have formally lodged claims in the Affiliate Claims Portal and, to date, the Administrators have admitted four of these claims with a total value of c.£12m.

Prudent, specific reserves for claims received have been included in the High and Low indicative financial outcome cases.

Litigation

The current status of legal proceedings is set out below.

BTB

The UK High Court handed down its judgment on 27 April 2012. The judgment was not in LBIE's favour and is now subject to appeal by LBIE.

Should LBIE be successful on appeal and the BTB side letter be held to be valid, then LBIE will be entitled on certain 'back-to-back' trades to settle with LBF at the same value that it settles the trade with its Street counterparty.

The appeal is due to be heard in December 2012, unless the proposed settlement agreement is reached with the respondent, LBF, in the meantime.

Extended Liens

LBIE continued to prepare for the substantive hearing of this matter by the UK High Court in late September 2012.

Custodied assets have been returned in the period to Affiliates that satisfied the necessary release conditions set by the UK High Court in 2011, where no relevant agreement existed. Other Affiliates are at various stages of this process.

These proceedings could have a material impact on LBIE's recoveries of its assets held by Affiliates, as well as on LBIE's ability to appropriate assets in LBIE's control to settle Affiliates' indebtedness to LBIE.

Section 7:

Unsecured creditors

Highlights

- On 2 May 2012, the UK High Court ordered that the bar date for the submission of Proofs of Debt be brought forward to 31 July 2012. At that date, Proofs of Debt totalling c.£17.9bn had been received from 3,178 non-Affiliate unsecured claimants.
- The Administrators have made significant progress in the period to value and agree creditors' claims. During the six months:
 - claims totalling c.£1.3bn were agreed with 377 counterparties;
 - LBIE Determinations with a total value of c.£2.3bn were provided to 525 counterparties; and
 - further LBIE Determinations in respect of 770 counterparties (totalling c.£1.8bn) were finalised and have been, or are in the process of being, offered to claimants.
- Cumulatively, as at 14 September 2012, LBIE Determinations totalling c.£6.5bn have been prepared and offered to 1,539 counterparties, with 732 claims totalling c.£3.9bn having been agreed.
- In May 2012, the Administrators launched the Small Claims Settlement Offer such that creditors have the opportunity to receive a one-off payment in full and final settlement of their unsecured claims against LBIE. There has been significant interest in this initiative, with creditors actively engaging with the Administrators to formalise acceptance of this offer ahead of the 31 October 2012 deadline.
- In the period, the Administrators commenced the process to agree bilaterally certain creditors' claims. Where creditors formally rejected the offer made under the Consensual Approach, the Administrators have started to communicate with creditors, outlining the additional evidentiary documentation required in support of their claims.

Focus

During the six months, the main areas of focus have been:

- Street Creditors** – agreeing and admitting claims under the Consensual Approach and commencing bilateral negotiations where offers were rejected by creditors;

- Client Assets claimants** – making further substantial progress in agreeing the unsecured element of claims from Client Assets claimants, whilst isolating uncertainties arising from potential claims arising from Client Assets shortfalls and trades which were pending in respect of assets held at LBI at the time of LBIE's insolvency;
- Other third party creditors** – agreeing non-trading claims and those from LBIE's former branch employees; and
- Small Claims Settlement Offer** – launching an initiative under which certain creditors (whose agreed claims do not exceed £150,000, or who elect to limit their agreed claim to that amount) will be offered the opportunity to receive a one-off payment of 90% of their agreed claim in full and final settlement.

As at 14 September 2012, the estimated value of LBIE's liabilities was as follows. This excludes claims from Affiliates or those arising in respect of Client Assets shortfalls:

Unsecured claimants	Indicative financial outcome		
	Cpty No.	Low £bn	High £bn
Where Proofs of Debt have been filed:			
Street Creditors	2,244	(11.2)	(8.3)
Client Assets claimants* – with LBI pending trades	169	(3.1)	(2.3)
Client Assets claimants* – no LBI pending trades	335	(2.4)	(1.5)
Other third party creditors	430	(0.2)	(0.1)
Where Proofs of Debt have not been filed:			
Street Creditors	1,036	(0.3)	(0.1)
Client Assets claimants* – with LBI pending trades	12	–	–
Client Assets claimants* – no LBI pending trades	269	–	–
Other third party creditors	105	(0.2)	(0.1)
Total	4,600	(17.4)	(12.4)

* This excludes additional contingent unsecured claims that might arise from any Client Assets shortfalls. However, in some cases the Low outcome does include elements of such claims, to the extent that creditors have not separated these from the rest of their claim.

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

Where the Proofs of Debt have been filed:

Low outcome:

- for Street Creditors, Client Assets claimants with no LBI pending trades and other third party creditors – the aggregate of the higher of the values of (a) filed Proofs of Debt and (b) the Consensual Approach, except where claims have been agreed with creditors at lower levels; and
- for Client Assets claimants with LBI pending trades – the aggregate of the value of all filed Proofs of Debt.

High outcome: prepared on the same basis as the Low scenario, adjusted for certain elements of creditors' claims which are, at this stage, considered to be unsubstantiated or will likely be agreed at lower levels.

Where no Proofs of Debt have been filed: the Low outcome represents the Consensual Approach value; the High outcome includes a modest provision to allow for a proportion of creditors who may yet lodge claims against LBIE.

Progress

Proofs of Debt

Under UK insolvency legislation, creditors wishing to claim against an insolvent estate must submit a Proof of Debt, which is statutorily compliant. Throughout the course of the Administration, there have been a number of campaigns designed to encourage counterparties to submit their Proofs of Debt.

As noted above, on 2 May 2012 the Administrators applied to the UK High Court to bring forward the date by which creditors must prove their claims against LBIE in respect of the first interim distribution from 31 December 2012 to 31 July 2012 (the bar date).

As a consequence, in July 2012 alone, 712 creditors submitted claims with a value of c.£5.3bn against LBIE. As at 31 July 2012, the number and value of known submitted claims (excluding those from Affiliates) was:

Unsecured claimants	Cpty No.	Claims £bn
Street Creditors	2,244	(12.2)
Client Assets claimants*	504	(5.5)
Other third party creditors	430	(0.2)
Total	3,178	(17.9)

Consistent with previous reports, the above summary is after an initial review of the claims received by LBIE and includes c.£0.2bn of apparently duplicate Proofs of Debt, which are considered redundant.

* A number of creditors have incorporated (in many cases, incorrectly) within their total unsecured claim, contingent claims arising from Client Assets shortfalls. This element has not been disaggregated at this stage. However, claims correctly disclosed as contingent unsecured claims have been excluded from the above table.

Although the level of non-Affiliate claims of c.£17.9bn exceeds the top end of the range estimated in our previous progress report, this includes:

- Proofs of Debt totalling c.£3.9bn that have subsequently been agreed at c.£3.1bn;
- c.£0.4bn in respect of Proofs of Debt which have been filed against LBIE and where the Administrators consider the claimant may be a debtor; and
- £0.9bn in respect of Proofs of Debt for damages claims for which LBIE had no provision in its balance sheet.

LBIE Determinations

Street Creditors

In the period, the Administrators made significant progress in reconciling and valuing counterparties' trading positions under the Consensual Approach. Specifically:

- due diligence reviews have been concluded for 1,170 claims, largely in respect of the significant number of claims lodged in July 2012. This has included amongst other matters the re-mapping of trades and account balances, and processing of assignment of claims or master agreements;
- continued extensive counterparty engagement resulting in 162 offers (totalling c.£1.0bn) being made under the Consensual Approach;
- in-depth discussions resulting in 306 claims being agreed, totalling c.£1.1bn; and
- following clarification by the UK Supreme Court of counterparties' entitlements to Client Money protection, the Administrators have worked diligently to assess for those counterparties with agreed claims which elements constitute an unsecured liability (and therefore rank for dividend) and which aspects are entitled to Client Money protection. Accordingly, in the period, of the agreed claims 252 claims (totalling c.£0.7bn) were admitted as unsecured claims, and are now eligible for inclusion in the first interim distribution.

Client Assets claimants

As described in the previous report, increasingly the Administrators' focus is on agreeing the complex claims received from Client Assets claimants.

There are often significant issues affecting this population of claimants (for example, contingent Client Assets shortfall claims) which prevent the Administrators from determining, at this stage, the full extent of their unsecured claims. Nevertheless, by focusing on the portion of their claim that is unaffected by these issues, the Administrators have been able to make further substantial progress.

During the period, the Administrators have:

- further developed the range of legal agreements to deal with specific issues/complexities of each creditor's claim; and
- made 270 offers to Client Assets claimants (LBIE value of c.£1.3bn), with 40 claims (LBIE value of c.£0.2bn) being agreed.

Other third party creditors

Over the last six months, a further area of focus has been the reconciliation and agreement of claims from other third party creditors.

The Administrators have developed a standardised process to agree these claims in an efficient manner, leveraging experiences from agreeing claims of Street Creditors.

Of the 430 claims received to date, 105 offers have been made to creditors, with 43 claims being agreed and admitted. The Administrators are in correspondence with a material proportion of the remaining claimants where, it appears, the claim should be addressed to another Lehman entity or that it was settled some time ago (such as, say, by an overseas LBIE branch).

Offers to creditors

As shown below, as at 14 September 2012 the Administrators had agreed 732 claims against the House Estate totalling c.£3.9bn:

Claimants where Proofs of Debt have been filed	Total population		Offers made		Claims agreed	
	No.	High £bn	No.	£bn	No.	£bn
Street Creditors	2,244	(8.3)	1,143	(4.8)	635	(3.3)
Client Assets claimants – with LBI pending trades	169	(2.3)	25	(0.8)	4	(0.1)
Client Assets claimants – no LBI pending trades	335	(1.5)	266	(0.9)	50	(0.5)
Other third party creditors	430	(0.1)	105	–	43	–
Total	3,178	(12.2)	1,539	(6.5)	732	(3.9)

A large proportion of the claims agreed with creditors included those where, owing to uncertainty as to claimants' CME, claims were agreed in quantum but were not able to be admitted as unsecured claims in order to rank for dividend purposes.

During the period, much work was undertaken to interpret the UK Supreme Court ruling in respect of CME. This, combined with significant system enhancements and due diligence work, has enabled LBIE to commence issuing CM Determinations to counterparties, such that it can seek to quantify the unsecured elements of agreed claims.

Small Claims Settlement Offer ("SCSO")

In May 2012, the Administrators launched the SCSO, providing creditors with the opportunity to receive a single payment (of 90% of their agreed claim amount) in full and final settlement of their unsecured claims against LBIE. The SCSO is available to all creditors with an agreed claim of £150,000 or less (or where a creditor is willing to cap their agreed claim at this level).

In order to participate creditors must, as well as having their claim agreed by the Administrators, enter into a separate agreement with LBIE accepting the SCSO in full and final settlement. As previously advised, these conditions must be met by 31 October 2012.

Creditors with agreed claims that do not wish to participate in the SCSO will, once their claim is admitted, rank for dividend in the normal course.

Bilateral claims agreement

The Administrators continue to focus on dealing with all eligible counterparties under the Consensual Approach, before seeking to agree their claims through bilateral negotiation (or indeed ultimately dispute resolution).

Nevertheless, the Administrators understand that, given the complexities of creditors' positions, a number of counterparties are likely to prefer to have their claims reviewed in detail on a bilateral basis.

As a result, the Administrators have now commenced a bilateral claims agreement process with creditors being required to reject firstly any offer made by LBIE under the Consensual Approach.

In most instances, this process will require substantial further evidentiary documentation. Consequently, the time to agree (and admit) claims under this approach will largely depend on the level of additional documentation to be provided, the complexity of the claim and the number of creditors seeking claims agreement through this approach. It therefore seems probable that the majority of counterparties seeking to have their claims agreed through bilateral negotiation will not participate in the first interim distribution.

Section 8:

Client Assets

Highlights

- Substantially increased engagement with LBI in settlement discussions, whilst meeting pre-trial discovery obligations in relation to LBIE's objections to the revised LBI Determination.
- Development of a distribution protocol concept that will be used to govern returns to clients from recoveries made from LBI in due course.
- Client Assets with a value of c.£0.3bn were returned during the period, across more than 1,100 individual client holdings.
- To date, a total of c.£13.5bn of Client Assets comprising c.5,700 individual client holdings have been returned to counterparties.
- Further Over-Claims of c.£0.4bn were materially resolved and/or reconciled during the period.

Focus

The current areas of specific focus are to progress:

- satisfactory resolution of LBIE's Omnibus claim against LBI;
- developing the basis for a return of recovered Omnibus claim assets from LBI to clients;
- recovery of Client Assets custodied by other overseas Affiliates on behalf of LBIE's clients;
- resolution of Over-Claims, Extended Liens and other issues which restrict the addressable population of Client Assets available for return;
- continued return of Client Assets to LBIE's counterparties through the CRA or bilateral agreement; and
- recovery or collateralisation of debts owed by Client Assets claimants to the House Estate.

Progress

LBI – Omnibus Customer claim

Settlement discussions

The progress made with LBI leading to the announcement of non-binding heads of terms is potentially very significant for the c.300 clients whose US-custodied positions were held through LBIE. In our previous reports, and more particularly in our last report, we outlined the complexity surrounding the mismatch of securities and cash that we believed were due to LBIE under the Omnibus claim as compared to the LBI Determination given by the LBI Trustee. Creditors may recall that LBIE's view of the total value of client entitlements for client positions was c.\$7.6bn, whereas in the LBI Determination only c.\$1.9bn might be usable for LBIE's clients. After meaningful and frequent interaction with LBI, the difference under the outline terms of settlement has narrowed very substantially, although significant individual securities differences continue to exist on a line-by-line basis.

In order to curtail litigation between the parties, LBIE is now able to accept a further revised LBI Determination which reflects the LBI Trustee's reappraisal of the Omnibus claim as per LBI's books. The LBI Trustee is now prepared to release the entire LBI Determination to LBIE in due course, subject to an undertaking that all of these proceeds (save for costs and lien recoveries) will flow to clients. LBIE will distribute the recovery to clients on an allocation basis yet to be agreed. In overcoming these fundamental issues, the parties have been able to explore how the recovery will be constituted (a mix of securities and cash) and what LBIE's claim for post-filing income accumulated by LBI will be.

Making progress in these key areas has enabled LBIE to build a clearer view of what the actual securities and cash recovery from LBI would be and to start assessing how these recoveries may be allocated to underlying clients.

The key financial information is set out below.

LBIE view of securities and cash	£bn	\$bn
Securities position	3.4	5.3
Client cash position	1.4	2.3
LBIE view of client positions	4.8	7.6

Note: Securities entitlements referred to above are valued by LBIE as at 19 September 2008.

The key provisions of the non-binding heads of terms for the Omnibus claim are as follows:

- Omnibus claim of LBIE allowed in the LBI estate in the sum of \$7.5bn (at 19 September 2008 value);
- the Omnibus claim to be settled in cash and specified securities;
- the Omnibus claim to benefit from \$0.6bn of post-filing income;
- all recoveries less costs and lien retentions to go to customers;
- a reserve in LBIE's estate for Omnibus claim recoveries to be capped at \$9.0bn immediately on a binding basis;
- LBIE's other Omnibus claims to be withdrawn; and
- LBI and LBIE to coordinate activities to ensure clients claim only once, with duplicate claims being subjected to expungement orders.

Allocation and return issues

The heads of terms represent (subject to eventual legal agreement and court approval) a major step forward in the overall satisfaction of the Omnibus claim made on behalf of LBIE customers. Ultimately, complete resolution of the Omnibus claim will only be achieved once recoveries are fully allocated and distributed to those underlying customers. In parallel with the ongoing settlement negotiations, LBIE has been developing an approach to address these client-side aspects, in respect of which several key challenges need to be tackled:

- notwithstanding the aggregate value of the Omnibus claim settlement, the mix of securities and cash that will be delivered by LBI will be substantially different to the mix of individual entitlements that has been computed by LBIE and previously reported on client statements;
- the legal analysis of the nature of client entitlements to the aggregate recovery from LBI is not straightforward. Moreover, there is no clear precedent for the basis of allocation of the recovery between the underlying Omnibus claim customers; and
- the original individual client portfolios of assets and cash locked up in the LBI estate have, at least notionally, achieved different market returns in the period since September 2008, and this has driven a range of client expectations as to the size of any eventual LBI allocation.

Because Omnibus claim clients have waited for over four years to achieve a recovery of value, our approach to allocation and distribution must place a premium on speed of execution.

Having taken all the above matters into account, LBIE will be proposing a resolution mechanism with the following as likely attributes:

- a consensual contractual proposal;
- a consistent treatment of LBI-related positions of all Omnibus claim clients, CRA signatories or otherwise, based on those clients' claims against LBIE;
- an orderly liquidation of the securities when received from LBI;
- an allocation mechanism for cash proceeds that is value-driven i.e. taking into account the notional gains and losses on securities that might have been held by clients since 19 September 2008;
- a prudent reserving mechanism for any non-accepting clients with a subsequent process to seek judicial determination in the UK; and
- elimination of any remaining duplicate claims or Over-Claims in the LBIE and LBI estates.

Further details of the LBIE proposal, when concluded, will be provided to Omnibus claim clients in the coming weeks. In the meantime, clients will also receive an updated and rolled forward LBI statement. Previous statements issued to clients reported the client cash and securities positions as at 19 September 2008. The revised statements will use June 2012 valuations and capture the impact of corporate actions and income arising in the period. This information will likely impact the ultimate allocation of the Omnibus claim recoveries. We encourage clients to review the statements and the accompanying guidance notes carefully when they are received, and to provide feedback as soon as possible.

Ongoing litigation

In conjunction with settlement discussions, LBIE has continued to progress the litigation against LBI in respect of the Omnibus Customer claim in the period.

As previously reported, LBIE filed an objection to the revised LBI Determination on 31 October 2011. LBIE also filed a response to the LBI position statement on 24 February 2012 and we refer you to the last progress report for further details of the specific issues.

In respect of this litigation, document discovery was substantially completed on 16 July 2012 in line with a scheduling order.

The current focus of the litigation preparation is on depositions and witnesses interviews, obtaining expert witness opinions, and the review of materials supplied by LBI through the document discovery process. This activity has been stayed until December 2012 pursuant to the LBI heads of terms.

Client Assets analysis (excluding LBI)

Movements in the client depot (excluding LBI-controlled assets) during the period were as follows:

	£bn
Reported as at 14 March 2012	1.3
Returned to clients in the period	(0.3)
Revaluation, exchange rate and other adjustments	(0.2)
Redemptions	(0.1)
Client Assets as at 14 September 2012	0.7[^]

[^] net of c.£0.1bn estimated shortfall on LBIE-controlled assets.

Client Assets currently comprise:

	£bn
In LBIE-controlled depots*:	
CRA claimants	0.3
Non-CRA claimants	0.3
Total	0.6
LBHK [^]	0.1
Client Assets as at 14 September 2012	0.7

* LBIE-controlled assets are valued as at 14 September 2012.

[^] Assets controlled by other entities are valued as at 19 March 2010.

Client Assets returns

In the six-month period, over 1,100 individual Client Assets holdings were returned to counterparties representing a total asset value of c.£0.3bn. The cumulative total of Client Assets returned since the CRA bar date is c.5,700 holdings.

The majority of remaining non-CRA Client Assets remain blocked by LBI-related issues. A number of counterparties continue to suffer from competing claims from LBI, whereby LBI is asserting that certain LBIE-controlled assets are the property of LBI and should be returned to it. The Administrators actively continue to work with LBI to resolve this issue consensually and a further supplemental agreement was reached on 12 June 2012 to allow progress on c.100 additional assets. The remainder of these assets will be dealt with under the provisions of the recently announced heads of terms with LBI.

Client Assets claimant debtors

Certain of LBIE's Client Assets claimants are also debtors of the House Estate, and recovery of these debts will be impacted by the level of any offsetting Client Assets shortfalls. Many of the larger of these Client Assets debtors have Client Assets entitlements held by LBI. The agreement of heads of terms with LBI has enabled us to reassess the value of these debtor recoveries.

During the period, recoveries of less than £0.1bn in the form of cash collateral (which is not yet available for distribution, principally pending recovery of securities from LBI) were achieved.

Excess segregated Client Assets

The process to review securities held in the segregated client depot to identify over-segregated assets continues. No material transfers were made to the House depot in the period (c.£0.4bn has been transferred to date).

Over-Claims and ring-fencing

In a number of cases, LBIE has received multiple counterparty claims for the same Client Assets. Until these Over-Claims are resolved, the impacted Client Assets cannot be returned to their rightful claimants. To the extent that LBIE holds the equivalent securities in its House Estate, then, as a precautionary measure, such securities are ring-fenced and excluded from the House Estate.

An analysis of Over-Claims is set out below:

	£bn
Over-Claims at 14 March 2012	1.5
Over-Claims resolved or reconciled in the period	(0.4)
Total Over-Claims at 14 September 2012	1.1
Comprising:	
Over-Claims asserted for assets within LBIE's control	0.1
Over-Claims asserted for assets outside LBIE's control	1.0

In the period, Over-Claims on assets within and outside of LBIE's control each reduced by c.£0.2bn.

Client Assets claimant shortfalls

	Sep 12 Low £bn	Sep 12 High £bn
Estimated Client Assets claimant shortfalls	(2.8)	(0.5)

c.£0.1bn of the estimated Client Assets shortfalls above relate to assets within LBIE's control. The remaining element of the estimated shortfalls relates to Client Assets controlled by other entities, which are subject to a range of unresolved issues, most notably with LBI. The eventual level of asset recovery will impact the value of unsecured claims admitted for Client Assets shortfalls and the value of assets that LBIE will be able to appropriate from Client Assets claimants that are indebted to it.

LBHK

LBHK has not yet released any Client Assets held for LBIE clients pending resolution of the Extended Liens dispute (see Section 6).

Feedback received from affected clients on holding differences, based on details of Hong Kong depot holdings shared with them in the period, has been passed onto LBHK.

Section 9:

Client Money

Highlights

- Following the UK Supreme Court ruling, a set of principles for the determination of Client Money based on contractual entitlement was established and communicated to counterparties in May 2012.
- A CM Determinations process for entitlements has been developed and implemented.
- Discussions continued with LBF and LBI to quantify and further reduce or extinguish their CME and assess the scope for including their Client Money claim as part of an overall settlement.
- LBI's recoveries for its CME have now been capped at \$1bn.
- The German court ruled that the c.\$1bn LBIE claim into LBB should rank *pari passu* with other unsecured creditors. LBB have appealed this judgment.
- c.£0.1bn of post-Administration Client Money was returned to clients.

Focus

The aim of the work stream is to bring clarity to a range of complex issues to facilitate the return of pre- and post-Administration Client Money.

The focus in the period has been on:

- finalising the pre-Administration CME principles and preparing CM Determinations for individual counterparties;
- engaging with major Affiliates, specifically LBF and LBI, with a view to agreeing the quantum of their CME;
- continuing to pursue recovery of Client Money from LBB; and
- identifying and resolving the complex legal issues that continue to prevent the return of post-Administration Client Money.

Progress

Pre-Administration Client Money

Client Money entitlement

The UK Supreme Court pre-Administration judgment of 29 February 2012 provided clarity with regard to the broad principles to be applied, but not issues of detail.

In the last progress report, we outlined our provisional strategy to progress the Client Money issues based upon our preliminary assessment of the judgment. We have further reflected on the judgment and have concluded on an approach to seek a consensual resolution to CME.

In outline, the plan to facilitate an interim distribution from the Client Money pool comprises the following steps:

- formulate and publish a view on the principles that should be applied by LBIE to calculate CME;
- prepare and distribute CM Determinations for individual counterparties based on these principles;
- monitor counterparties' responses to the CM Determinations;
- once the exercise is sufficiently advanced, consider a CM Bar Date application; and
- operationally prepare for a Client Money interim distribution in the first half of 2013.

Principles

The Administrators have formulated a view on the principles we will apply to calculate CME. This view is based on the forms of contract used by LBIE, the contents of the UK Supreme Court judgment and comments made by certain interested parties. The principles were communicated to counterparties on 24 May 2012, and are available on LBIE's website.

CM Determinations

There are c.6,200 financial trading counterparties in LBIE's records. Based on the transaction types and forms of contract, we currently anticipate that c.5,600 counterparties will require CM Determinations, being those counterparties with the potential to have a CME. Of these, we estimate there are c.1,200 counterparties that have a CME, with the remainder likely to be confirmed as nil balances.

In the period, significant progress has been made in preparing CM Determinations which will be communicated to the relevant counterparties over the coming weeks. The Administrators expect to have substantially completed the process of preparing CM Determinations by the end of 2012.

It is too early to draw conclusions as to the likely outcome of the approach in terms of acceptance of the principles. We would note, however, that there have been no material objections to the principles to date and we are encouraged by the responses to date on the CM Determinations made.

The Administrators will publish an update describing the number and value of agreed CM Determinations when the agreement process is sufficiently advanced.

Affiliates

In contrast to third party counterparties, LBIE typically did not segregate funds for, or in some cases use, written contracts with Affiliates.

The Administrators have identified 233 Affiliates where a review is required to determine whether that Affiliate has a CME. At 14 September 2012, CM Determinations had been prepared for 59 of these Affiliates.

LBI

The recently-announced heads of terms include a binding reserving agreement, with LBI agreeing to a maximum Client Money recovery of \$1bn.

If the settlement with LBI concludes on the terms contemplated, the Client Money claim of LBI will be assigned to a nominee of LBIE. With the nominee holding the Client Money claim for LBIE and LBIE assessing the remaining exposure to contribute funds by way of Tracing, there may be scope to simplify the resolution of the Client Money fund in a way that expedites recoveries for other Client Money claimants.

In the period, BarCap filed what appears to be a competing claim in respect of LBI's Client Money claim of c.\$1bn, which links back to US-based litigation with LBI. LBIE has recently commenced a dialogue with BarCap.

LBF

Settlement discussions have progressed with LBF. An agreement has been reached in principle under which LBF will also assign its Client Money claim to LBIE's nominee as part of an overall settlement.

As with LBI, if LBF's Client Money claim is assigned under a final settlement, then scope may exist to expedite and simplify the resolution of the Client Money estate.

For further commentary on LBI and LBF, please see Section 6.

Recoveries

The pre-Administration Client Money pool at 14 September 2012 was c.£0.7bn. This balance will be potentially increased by recoveries from:

Tracing in the House Estate

The UK Supreme Court judgment confirmed that the Administrators are required to find any Client Money, wherever held, and to place such funds in the Client Money pool.

In order to comply with this requirement the Administrators will need to:

- complete the CM Determinations process to identify the gross Client Money amount which should have been segregated;
- determine to what extent the gross Client Money amount has already been segregated (and is therefore no longer traceable); and
- trace that element of the gross Client Money amount that has not yet been segregated.

This detailed Tracing exercise can only be undertaken, on a cost-effective basis, once the first of these steps is substantially complete. In the intervening period, the Administrators are continuing to analyse the House transaction accounts in preparation for the detailed Tracing exercise.

During the period, the Administrators have undertaken a review of the recoveries in the House Estate. That exercise has identified c.£1.6bn of assets, principally cash in bank accounts or amounts recovered from trading exchanges, which represent potentially traceable Client Money.

The amounts that have been identified as representing potential client funds are held in the currency of receipt, pending the clarification of their ultimate beneficial ownership. At the date of this report, these amounts were c.€1.2bn, c.\$0.5bn and c.£0.3bn.

LBB/LBHI

The Administrators are continuing proceedings in the German courts to recover c.\$1bn of pre-Administration Client Money held by LBB. On 3 May 2012, a German court ruled in LBIE's favour determining that its claim should be admitted to rank for dividend *pari passu* with other unsecured creditors and should not be subordinated in favour of non-Affiliate creditors.

LBB has appealed this judgment and filed the grounds for its appeal in September 2012. LBIE's reply will be filed in the near future. An appeal is unlikely to be heard before early 2013.

To the extent that LBIE is unable to recover all of the Client Money lodged with LBB pre-Administration, LBIE has a guarantee claim against LBHI. Whilst this contingent claim has been agreed with LBHI, there will be no payments made by LBHI until the position between LBB and LBIE has been resolved.

The counterclaim raised by LBB against the above claim has still to be listed for a hearing by the German appeal court.

Other recoveries

The small outstanding balance payable to LBIE relating to BarCap (c.£10m) is being addressed as part of the global settlement discussions with LBI.

We continue to pursue a small number of outstanding Client Money balances (total c.£25m), principally in Korea and Taiwan. The return of these funds remains dependent upon regulatory clearances and the resolution of local court cases.

Post-Administration Client Money recoveries and returns

c.£0.1bn of post-Administration Client Money was returned to clients in the period, with c.£0.8bn remaining to be returned.

The return of remaining funds is principally linked to the resolution of remaining Client Assets returns, which are impacted by LBI-related factors and legal disputes including Extended Liens (see Section 8).

Section 10:

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 (both appointed 15 September 2008), DA Howell (appointed 30 November 2009), and PD Copley and R Downs (both appointed 2 November 2011) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. MJA Jervis and DY Schwarzmann ceased to act on 2 November 2011.
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 on 2 November 2011 granted an extension of the Administration to 30 November 2016.
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit.
Estimated dividend for unsecured creditors:	The first interim distribution is planned for November 2012. Creditors are referred to Section 3 for the illustrative range of outcomes.
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

Changes to the constitution of the Committee

The Committee members as at 14 September 2012 were:

1. Lehman Commercial Paper Inc.
2. Ramius Credit Opportunities Master Fund Limited
3. GLG European Long Short Fund
4. Lehman Brothers Asia Holdings Ltd

During the period, Société Générale resigned from the Committee.

Administrators' remuneration

Background

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

The Administrators continue to provide the Committee and its Adviser with this detailed information relating to their remuneration and to Category 2 disbursements, in accordance with SIP 9, on a quarterly basis.

The remuneration information contained in this report is extracted from the Q1 and Q2 2012 data packs which have been provided to the Committee and its Adviser. Consistent with our previous reports to creditors, we have not sought to separately analyse remuneration information for the period between the last quarter end (Q2) and the date of this report (14 September 2012). In due course, this information will be incorporated within the Q3 data pack which will be provided to the Committee and its Adviser for their review.

Approvals by the Creditors' Committee

As previously reported, the Committee approved the 2012 remuneration arrangements for the Administrators earlier in the year, including the deferral of a significant proportion of the Administrators' 2012 time costs to be considered for approval in early 2013.

The Committee has been provided with Category 2 disbursement information relating to the six-month period to 30 June 2012 amounting to £701,429, which it has duly approved for payment.

Analysis of time costs

In the six months to 30 June 2012, time costs of £77,998,206 have accrued, totalling 241,083 hours at an average hourly rate of £324 (previously £312).

The Administrators' time costs for the first half of 2012 have increased marginally compared with the second half of 2011, primarily reflecting the increased resource utilised on CM Determinations and on unsecured creditor claims agreement.

Cumulative time costs accrued to 30 June 2012 are c.£548m. Total Administrators' remuneration and disbursements paid to 14 September 2012 are c.£563m.

Analysis of Administrators' remuneration

The table below provides an analysis of the Administrators' total hours incurred and the associated cost by staff grade, in respect of the period 1 January 2012 to 30 June 2012.

Grade	Period 1 January 2012 to 30 June 2012	
	Hours	£'000
Partner	9,742	7,199
Director	13,446	8,149
Senior Manager	35,825	16,037
Manager	66,098	22,176
Senior Associate	77,204	17,901
Associate	38,768	6,536
Total	241,083	77,998

The following table allocates hours and associated costs by work activity in the same period.

Activity*		Period 1 January 2012 to 30 June 2012	
		Hours	£'000
Counterparties	Street	22,363	8,543
	Trust	40,603	12,481
	Affiliates	41,441	13,270
	Valuations	17,897	5,678
	Branches	3,487	1,483
Middle Office	Middle Office	23,493	7,417
Transaction Processing and Control	Transaction Processing and Control	25,172	7,977
COO	Administrators	8,144	3,995
	Chief operating officers	8,656	2,941
	Performance improvement and control	11,723	3,820
	Treasury	7,389	2,170
Functions	Tax	1,801	1,146
	Regulatory and compliance	1,229	317
	Information technology	23,844	5,561
	LBL recharges (see below)	3,841	1,199
Total		241,083	77,998

* Previously separately disclosed forensic investigation costs are now analysed within the work activity to which they relate.

LBL recharges	Period 1 January 2012 to 30 June 2012	
	Hours	£'000
Employees	1,088	415
Estate accounting	641	193
Group services management	2,112	591
Total	3,841	1,199

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 and SA Pearson were appointed as Joint Administrators of LBIE on 15 September 2008. DA Howell was appointed on 30 November 2009. PD Copley and R Downs were appointed on 2 November 2011. 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
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
Category 2 disbursements	Administrators' Category 2 disbursements	Costs that are directly referable to the Administration but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the Administration on a proper and reasonable basis
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., an 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 held by LBIE as at 15 September 2008 or received thereafter by LBIE and which are in each case subject to the UK FSA's client money rules and/or applicable client money distribution rules
CM Bar Date	Client Money Bar Date	The date by which Client Money claims must be lodged to be eligible for inclusion in a first interim distribution of pre-Administration Client Money
CM Determinations	Client Money Determinations	The Administrators' assessments of the quantum of Client Money Entitlement of a financial trading counterparty based on published principles
CME	Client Money Entitlement	The entitlement to receive a distribution from the pre-Administration Client Money pool
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the Insolvency Act 1986
Consensual Approach	Consensual Approach	A framework developed for the expedient resolution of the unsecured claims of financial trading counterparties
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
FSA	Financial Services Authority	Regulator of providers of certain financial services in the UK

Abbreviation	Term	Definition
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
HMRC	HM Revenue and Customs	Organisation of the British Government primarily responsible for the collection of taxes
House Customer claim (also referred to as the House claim)	House Customer claim	Element of LBI SIPA Customer claim relating to LBIE House positions
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
ISDA	International Swaps and Derivatives Association	Global trade association for OTC derivatives and maintainers of the industry standard ISDA documentation
LB Lux	Lehman Brothers (Luxembourg) S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBB (also referred to as Bankhaus)	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
LBEF	Lehman Brothers (Luxembourg) Equity Finance S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBEL	Lehman Brothers Europe Limited	Affiliate entity subject to insolvency proceedings in the UK
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 formerly subject to Chapter 11 bankruptcy protection from 15 September 2008. The Plan became effective on 6 March 2012
LBHK	Lehman Brothers Hong Kong	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong: Lehman Brothers Asia Holdings Ltd, Lehman Brothers Commercial Corporation Asia Ltd, Lehman Brothers Asia Capital Company Ltd, Lehman Brothers Securities Asia Ltd, Lehman Brothers Futures Asia Ltd, Lehman Brothers Asia Ltd and Lehman Brothers Nominees (H.K.) Ltd
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 to in earlier progress reports as the Claims Portal	A secure, structured system for counterparties to submit details of their unsecured claims against LBIE accessible through the CIP
LBIE Determination	LBIE Determination	Agreement of eligible claims using a value determined by LBIE, derived from LBIE's own valuation methodology
LBI Trustee	LBI Trustee	James W. Giddens, of Hughes Hubbard & Reed LLP, Trustee for the SIPA Liquidation of LBI
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

Abbreviation	Term	Definition
LBS	Lehman Brothers Securities N.V.	Affiliates subject to insolvency proceedings in Curacao, Kingdom of the Netherlands
LB UK RE	LB UK RE Holdings Limited	Affiliate entity subject to insolvency proceedings in the UK
LCI	Lehman (Cayman Islands) Ltd	Affiliate entity subject to insolvency proceedings in the Cayman Islands
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
OSLA	Overseas Securities Lending Agreement	A securities lending agreement which has now been superseded by the Global Master Securities Lending Agreement
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 formerly in Chapter 11 with the US Bankruptcy Court, proposing an economic solution for creditors designed to achieve resolution of the Chapter 11 proceedings. The Plan was approved on 6 March 2012
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 Affiliates as recorded in Lehman's books and records
SCSO	Small Claims Settlement Offer	An initiative for creditors with agreed claims up to £150,000 to be offered a one-off payment of 90% of their agreed claim in full and final settlement
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, inter alia, administrators
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	Court of Appeal of England and Wales	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
UK High Court	High Court of England and Wales	Court of England and Wales which deals with all high value and high importance cases, and also has a supervisory jurisdiction over all subordinate courts
UK Supreme Court	Supreme Court of the United Kingdom	This is the court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK

Appendix B:

Receipts and payments:

six months to 14 September 2012

House Estate receipts and payments: six months to 14 September 2012

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 September 2012 £m
Receipts						
Depot securities	1	29	156	278	155	481**
Counterparties	2	8	84	298	(10)	250
Client Money for onward distribution	3	2	14	29	4	35
Other income	4	36	8	98	23	126**
Total receipts for the period		75	262	703	172	892
Payments						
Affiliate settlement	5	(60)	(140)	(188)	–	(289)
Administrators' remuneration	6	(67)	–	–	–	(67)
Distribution of Client Money	7	(2)	(14)	(29)	(4)	(35)
Legal costs	8	(16)	–	(23)	–	(31)
Payroll and employee costs	9	(24)	–	–	–	(24)
Building and occupancy costs	10	(12)	–	(2)	–	(13)
Other payments	11	(22)	(8)	(47)	(11)	(68)
Total payments for the period		(203)	(162)	(289)	(15)	(527)
Net movement in the period		(128)	100	414	157	365
Balance at bank as at 14 March 2012 as previously reported		5,986	3,488	4,897	171*	11,987*
Net inter-currency transfers for six-month period to 14 September 2012		3,803	(2,081)	(3,140)	(186)	4
Total balances as at 14 September 2012	12	9,661	1,507	2,171	142	12,356
Less: Funds held subject to potential third party claims	13					(1,312)
Total House Estate cash and bonds (see Section 3)						11,044^

*Balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2012. Balances were c.£169m and c.£12,175m respectively if translated at 14 March 2012 exchange rates.

**Includes an aggregate amount of c.£162m arising in the period which is potentially subject to Affiliate or other third party claims.

^ Total House cash and bonds are subject to any Client Money Tracing rights that might exist.

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. Depot securities – sales and related income

Realisations of c.£0.5bn relate to the disposal or redemption of securities and derived income from depot holdings.

2. Counterparties

Receipts of c.£0.1bn related to financing, prime brokerage and OTC derivatives. A dividend receipt of c.£0.1bn from LBHI and its US debtor affiliates was also received in the period.

3. Client Money for onward distribution

Under some client agreements, certain Trust Property is transferred from the Trust Estate 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 7).

4. Other income

Other income includes:

- c.£46m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see other payments)
- c.£41m collateral received from Client Assets claimants;
- c.£19m of corporation tax-related repayments;
- c.£16m of bank and bond interest received; and
- c.£4m of other realisations.

5. Affiliate settlements

c.£0.3bn payments made in accordance with asset return agreements with two Affiliates.

6. Administrators' remuneration and expenses

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

Out-of-pocket expenses of c.£2m were paid in the period.

7. Distribution of Client Money

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

8. Legal costs

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

9. Payroll and employee costs

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

10. Building and occupancy costs

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

11. Other payments

Includes the following:

- repayment of c.£46m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see other income);
- c.£19m of VAT paid on invoices; and
- c.£3m of other sundry payments.

12. Investment profile

Current investment strategy

LBIE invests in short-dated government securities only to the extent that a positive yield net of fees is generated. Otherwise, the funds are invested in money market deposits to achieve the same objective.

Total balances

House Estate	Notes	GBP equivalent £m
Government bonds – short-dated		6,370
Short-term deposit	1	5,655
Interest-bearing accounts		331
Total		12,356

1. Average rate of return for six months ending 14 September 2012 of EUR 0.11%, GBP 0.33% and USD 0.10%.

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 (positive yield net of fees).

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 policy is measured on at least a daily basis using live indicators and any breaches arising from market movements are reported immediately to the Administrators.

Yields are measured against appropriate benchmarks.

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

Instruments used in the period

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

Policy for interest-bearing accounts and short-term deposits

Permitted banks must meet four key criteria:

- be headquartered in a sovereign where the average long-term ratings from S&P, Moody's and Fitch are AA+ or above;
- have a blended average long-term rating from S&P, Moody's and Fitch at AA- or above;
- have a five year CDS price below a specified (prudent) threshold; and
- have a minimum market capitalisation above a specified (prudent) threshold.

To ensure diversification, the counterparty limits for monies invested are based on the credit rating, CDS price and market capitalisation of 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, the Netherlands and the US.

Bond portfolios are managed on a day-to-day basis by independent fund managers.

13. Funds held subject to potential third party claims

House Estate	£m
Funds held subject to potential Affiliate claims	988
Funds held subject to potential other third party claims:	
Ring-fenced for Trust Property claimants	48
Cash collateral from Client Assets claimant debtors	126
Reserve for Post-Administration Client Money	150
Total	1,312

**Trust Estate receipts and payments:
six months to 14 September 2012**

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 September 2012 £m
Receipts						
Redemptions, coupons, dividends and investment income		5	15	316	21	233
Funds received in error		–	–	9	–	6
Total receipts for the period		5	15	325	21	239
Payments						
Transfers to House	1	(5)	(6)	(77)	(57)	(115)
Transfers to clients		(2)	(15)	(43)	(15)	(56)
Return of funds received in error		–	–	(9)	–	(6)
Total payments for the period		(7)	(21)	(129)	(72)	(177)
Net movement in the period		(2)	(6)	196	(51)	62
Balance at bank as at 14 March 2012 as previously reported		112	305	1,243	376*	1,500*
Total balances as at 14 September 2012	2	110	299	1,439	325	1,562
Comprising:						
Pre-Administration Client Money balance		9	26	1,115	4	720
Post-Administration Client Money balance		101	273	324	321	842
Total balances as at 14 September 2012		110	299	1,439	325	1,562

* Balances for 'Various currencies' and 'GBP equivalent' above are translated as at 14 September 2012. Balances were £382m and £1,540m respectively if translated at 14 March 2012 exchange rates.

1. Transfers to House

In the House Estate, corresponding receipts are included within depot securities and other income.

2. Investment profile

Trust Estate	GBP equivalent £m
Short-term deposit	1,367
Interest-bearing accounts	195
Total	1,562*

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

Cash management and investment policy for client funds

The Client Money investment policy for short-term deposits and interest-bearing accounts is based on that used for the House Estate, modified to comply with the additional Client Money regulatory requirements.

Client Money is not eligible for investment in government bonds.

Appendix C:

Court update

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

Q2 2012	UK High Court	BTB judgment received
		Extended Liens application pre-trial review
	UK Appeal Court	ISDA (2)(a)(iii) judgment received
Q3 2012	UK High Court	Extended Liens trial

Summary of major court proceedings involving LBIE in future reporting periods:

Q4 2012	UK High Court	Extended Liens judgment expected
		LB Lux Administration expense claim hearing
	UK Appeal Court	BTB appeal hearing
	UK Supreme Court	Decision expected on whether ISDA 2(a)(iii) appeal will be heard
	German Higher Regional Court, Frankfurt	LBIE's appeal pleadings in the LBB Client Money proceedings are due; there is no indication as to when an oral hearing will take place or when a decision of the appeal court might be expected
Q1 2013	UK Appeal Court	Appeal by other Lehman companies (LBIE not a party) seeking to maintain Pensions Regulator's decision not to impose a financial support direction against them (pension scheme is seeking to overturn that decision)
Q2 2013	UK Supreme Court	Pension scheme deficit appeal re insolvency status of liabilities under a financial support direction imposed by Pensions Regulator
	US Bankruptcy Court	House and Omnibus Customer claim substantive hearings on LBI
Unknown	UK Upper Tribunal (Tax and Chancery)	Reference by LBIE and others to the Upper Tribunal of a decision by the Pensions Regulator that a financial support direction should be imposed on them (stayed pending outcome of UK Supreme Court case above)
	German Higher Regional Court, Frankfurt	LBB Client Money proceedings: in the counterclaim proceedings there is still no indication as to when an oral hearing might take place and when the court of appeal might take its decision

Note that the above tables exclude certain Street counterparty actual or potential litigation which is referred to in Section 5.

Appendix D:

Progress with the \$1 billion+ issues

A summary of the issues and the material progress made on each of these is set out below:

No.	Issue	Status as at 14 September 2012
1	Resolve Citibank	Substantially done
2	Resolve other major Institution	Good progress made
3	Resolve Over-Claims and ring-fenced assets	Good progress made
4	Recover assets from Asian custodians	c.£0.5bn remaining
5	Recover Client Money from LBB	Litigation ongoing
6	Affiliate legal disputes	BTB appeal due December 2012
7	Assets and cash returns from Affiliates	LBI, LBHK and LBJ outstanding Extended Liens hearing conducted. Judgment awaited
8	Agree Affiliate claims	LBF c.£11.2bn filed claim – negotiations continue LBI £1 reserve agreed on c.£7.7bn filed claim \$1bn recovery reserve agreed on Client Money claim LB Lux c.£11.8bn filed claim – conditional withdrawal of all except a potential residual c.£0.1bn unsecured claim agreed LBEF c.£8.8bn filed claim – negotiations continue LBB Client Money claim discussions continue
9	Quantify CME and Client Money Tracing	Substantially progressed
10	Resolve contingent claims	Ongoing

Appendix E:

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>
Standard Settlement Instruction queries	<i>SSI@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.

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