
Lehman Brothers International (Europe) – In Administration

Joint Administrators' ninth progress
report for the period from 15 September
2012 to 14 March 2013

12 April 2013

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 matters which remain unresolved may materially impact any or all of these estimates and, in turn, the dividend prospects for Lehman Brothers International (Europe) creditors. For reasons of commercial sensitivity, confidentiality and/or legal privilege, the Administrators are unable to provide detailed commentary on certain of the matters referred to in this report, each of which could have a material bearing on the eventual outcome to creditors.

The Administrators have observed the secondary market pricing for claims against the LBIE estate and are aware that many market participants are currently of the view that the eventual return to unsecured creditors will be substantially more than the principal sum owed, on account of the payment of a certain amount of interest. At this stage in the Administration, the Administrators are unable to comment on the likelihood of such an outcome. On page 9 of this report, the Administrators have set out an updated range of indicative financial outcomes for unsecured creditors, for illustrative purposes only, which ignore the accrual of interest.

The Administrators caution creditors against using data in this report as the sole basis of estimating the value of their claims or any likely dividend ranges. LBIE, the Administrators, their firm, its members, partners and staff and 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.

Whilst amounts included in this report are stated in sterling, a material proportion of the Company's assets continue to be denominated in currencies other than sterling.

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

Contents

Section 1:	<i>Purpose of the Administrators' report</i>	<i>4</i>
Section 2:	<i>Executive summary</i>	<i>5</i>
Section 3:	<i>Financial update</i>	<i>8</i>
Section 4:	<i>House Estate – Affiliates</i>	<i>11</i>
Section 5:	<i>House Estate – non-Affiliates</i>	
Section 5.1:	<i>Claims agreement</i>	<i>18</i>
Section 5.2:	<i>Asset and debt recoveries</i>	<i>22</i>
Section 6:	<i>Client Assets estate</i>	<i>24</i>
Section 7:	<i>Client Money estate</i>	<i>27</i>
Appendices		
Appendix A:	<i>Receipts and payments: six months to 14 March 2013</i>	<i>32</i>
Appendix B:	<i>Administrators' remuneration</i>	<i>36</i>
Appendix C:	<i>Future dividend payment dates</i>	<i>38</i>
Appendix D:	<i>Court update</i>	<i>39</i>
Appendix E:	<i>Statutory and other information</i>	<i>40</i>
Appendix F:	<i>LBIE contact details</i>	<i>41</i>
Appendix G:	<i>Glossary of terms</i>	<i>42</i>

Section 1:

Purpose of the Administrators' report

Introduction

This report has been prepared by the Administrators of Lehman Brothers International (Europe) under Rule 2.47(3) of the Insolvency Rules 1986.

This is the ninth such formal update to unsecured creditors and it provides details of progress made in the six-month period 15 September 2012 to 14 March 2013. The statutory receipts and payments accounts for the same period are attached at Appendix A.

Wherever possible, again the Administrators have sought not to duplicate information disclosed to creditors in previous updates and reports, including various disclosures made concerning the LBI settlement and the Consensual Proposal. A copy of previous progress reports and other important announcements can be found at www.pwc.co.uk/lehman.

The Administrators will host a one-hour webinar on 30 April 2013, giving creditors an opportunity to hear a summary of the current circumstances of the Administration 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 statutory objective and specific aims as set out in previous reports and which are summarised at Appendix E.

Creditors' Committee

The Administrators continue to meet regularly with the Committee to review progress and consult on major issues by way of physical meetings, telepresence or audio conference calls.

During the period, Ramius Credit Opportunities Master Fund Limited resigned from the Committee and was replaced by Ramius LLC.

We are grateful to the members of the Committee for their significant continuing efforts in support of the Administration, particularly over this last six-month period in which a number of interactions have been required in order to progress the LBI settlement and related Consensual Proposal matters in particular.

Details of the Committee members are listed in Appendix E.

Change of Administrator

Upon the application of the Administrators, as a consequence of DA Howell's imminent retirement as a PwC partner, the UK High Court made an order on 22 March 2013 that JG Parr, a partner in PwC, be appointed an Administrator and that DA Howell cease to be an Administrator of LBIE.

The UK High Court also ordered that the former Administrator shall be released from all liability pursuant to the relevant sections in the Insolvency Act in respect of his acts and omissions and otherwise in respect of his conduct as Administrator of LBIE and that such release will take effect 56 days after the date of this report. The UK High Court gave permission for each creditor and member of LBIE to apply to vary or discharge its order by an application issued within 28 days of receipt of this progress report.

Future report and updates

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

In the interim, we will continue to provide ad hoc updates in the event of any material developments, through the website, or by other means as appropriate.

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe) –
In Administration

Section 2:

Executive summary

Introduction

The last six months have been particularly significant for the Administration with the settling of some of LBIE's most material Affiliate relationships and payment of the first unsecured interim dividend. This report is being issued ahead of the LBI and LBEF settlements becoming effective, but it assumes that the remaining conditions will be met in due course. This progress has resulted in a marked improvement in both the High and Low case indicative financial outcomes for unsecured creditors. In the unlikely event that either the LBI or LBEF settlements fail to become effective, the actual financial outcome could fall outside the indicative range set out in this report.

Significant developments in the period

The most significant achievements in the period resulted from a number of different initiatives and work streams, which have deployed substantial Administration resources over many of the earlier six-month reporting periods.

These achievements are summarised as follows:

- a first unsecured creditor dividend of 25.2% was paid on 30 November 2012 and a 'catch up' dividend on 28 February 2013. In addition, the SCSO had a high acceptance rate resulting in 759 counterparties receiving 90% on their agreed claims. In total, c.£1.8bn of House funds were distributed to 1,766 counterparties;
- the LBI settlement heads of terms announced on 5 October 2012 were committed to a binding agreement on 21 February 2013. The agreement is awaiting court approvals and, assuming that these are secured, is expected to become unconditional in May 2013. The overall impact for LBIE's unsecured creditors and Client Assets claimants is overwhelmingly positive, and an indication of the likely financial consequences is set out later in this report;
- the LBF settlement was agreed on 20 February 2013 and became effective on 2 April 2013. This agreement resolves substantially all elements of the LBF relationship, subject to resolution of the Extended Liens litigation;
- the LB Lux settlement was agreed on 4 October 2012, removing the majority of the inbound LB Lux claims of c.£11.8bn and ending LBIE's litigation in the Luxembourg Courts. This settlement enabled the Administrators to make a first interim distribution to unsecured creditors without reserve for this major claim;
- a settlement was reached with LBEF, reducing its unsecured claim from c.£7.7bn to just c.£57m, and this is currently awaiting Luxembourg Court approval. The agreement was made on a tripartite basis with LBF so as to eliminate the risk of an LBEF-related claim against LBIE being made subsequently by LBF;
- c.£1.3bn of further cash has been realised, including c.£0.8bn from House securities and receivables;
- unsecured claims totalling c.£6.0bn were admitted in the period, representing 1,530 counterparties;
- the Extended Liens matter was heard in the UK High Court and a favourable judgment was handed down. This is subject to an appeal by an LBHI-related entity, 314 Commonwealth Avenue Inc.;
- LBIE, LBL and LBHI2 made a joint application to the UK High Court on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders (the 'Waterfall Application') with the substantive hearing scheduled for November 2013;
- the BTB UK Appeal Court hearing was held in the period and a favourable judgment was handed down on 14 March 2013, albeit in the meantime the commercial impact of this matter had been incorporated into the LBF settlement agreement;
- the LBI settlement is expected to recover c.\$9.1bn (31 January 2013 values) of securities and cash in respect of the Omnibus Customer claim. In parallel with negotiating this settlement, a proposal was developed to govern the allocation of this recovery between claimants. An overwhelming majority of claimants has voted in favour of this proposal;
- c.1,100 lines of low value Client Assets that were within the Administrators' control and c.\$0.1bn of post-Administration Client Money were returned to LBIE clients in the period; and
- CM Determinations (including 'nil' balances) have been made for 7,830 counterparties and the majority of all other positions have now been reviewed against our published principles, thereby enabling a first interim Client Money distribution to be made during April 2013.

With the substantial progress that has been achieved over the last six months, the Administrators hope to be able to make a second interim distribution to unsecured creditors in the reasonably near future and will address this further in the 30 April 2013 webinar.

Overall progress since commencement of the Administration

Across both the House Estate and the proprietary estates of Client Assets and Client Money, the key achievements to date have been:

- c.£16.5bn of cash has been realised;
- c.£8.3bn of Claims Determination Deeds issued to unsecured creditors, resulting in c.£6.9bn of claims admitted to date;
- c.£1.8bn interim dividends and small claim settlements paid to unsecured creditors;
- resolution of the majority of LBIE's highest value Affiliate relationships through a combination of legal and consensual measures;
- c.£13.6bn of Client Assets returned/collateral released through the CRA or through bilateral negotiation;
- c.\$9.1bn Client Assets Consensual Proposal approved by Omnibus Customer claimants;
- c.\$3.5bn post-Administration Client Money recovered, with c.\$2.3bn of this now returned to clients; and
- c.\$1.2bn pre-Administration Client Money recovered, Client Money Entitlements clarified and plans under way to make a first interim pre-Administration Client Money distribution.

Indicative financial outcome

The updated indicative financial outcome range for unsecured creditors set out in Section 3 of this report reflects the elimination of a number of previous uncertainties (principally related to certain Affiliate claims). It shows an improvement driven by increased expected future asset recoveries and a reduction in claims reserves. The range of indicative outcomes has narrowed in comparison with that set out in our previous report, but would widen again in the event that the LBI or LBEF settlements did not proceed as planned.

Subject to the various important assumptions set out elsewhere 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.£11.7bn and c.£16.5bn and the potential range of claims that are expected to participate in any distribution is estimated to be between c.£14.2bn and c.£19.1bn, excluding Shareholders' claims and claims for the payment of interest.

The strengthening in the financial position now suggests that, in the High case scenario, there would be sufficient funds to settle in full all provable claims, excluding claims by Shareholders and claims for interest. Pending resolution of the matters covered in the Waterfall Application, there remains uncertainty regarding how any remaining funds will be applied.

The principal movements in the indicative financial outcome between this and our previous six-monthly report are outlined in Section 3.

Readers of this report should be aware that there remains downside and upside sensitivity to the updated range of indicative financial outcomes set out on page 9. Also, the Administrators caution that the indicative financial outcome set out in this report should not be used to assess the likely quantum of the second unsecured creditor dividend.

Priorities in 2013

The immediate focus of the Administrators going forward is to facilitate:

- the prompt agreement and admission of *bona fide* claims;
- the earliest and largest possible further interim distributions to unsecured creditors;
- finalisation of the LBI settlement and the subsequent return of Client Assets to Omnibus Customer claimants; and
- a first interim distribution to pre-Administration Client Money claimants in April 2013 and planning for the resolution of all major pre-Administration Client Money issues.

Court update

The Administrators are pleased that the settlements reached with Affiliates have considerably narrowed the ongoing litigation focus, albeit litigation continues to be pursued where consensual agreement cannot be reached.

Multi-party litigation in progress comprises the Waterfall Application and Extended Liens, both of which could have a material impact on the interests of LBIE's unsecured creditors and the Lehman Brothers Pension Scheme deficit proceedings in the UK Supreme Court. The primary participants in each of these legal proceedings are Lehman Affiliates.

Litigation will also continue to be an important alternative to consensual resolution of disputes with non-Affiliate counterparties and we expect more litigation to arise over the next period of the Administration. In particular, rejections of unsecured claims are expected to rise as a number of settlement discussions currently under way may end without agreement.

Investment and currencies 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 government securities where appropriate.

Pending finalisation of the Client Money Tracing exercise relating to House recoveries, major currency holdings of dollars and euros are still retained by LBIE.

A summary of the Administrators' investment policies is set out in Appendix A.

Human resources

As at 14 March 2013, the LBIE staff and contractor headcount was 479 (506 at 14 September 2012) and the Administrators are grateful for their continuing support and contribution to the Administration, particularly over the last 12 months, during which many milestones have been reached.

Section 3:

Financial update

Indicative financial outcome and basis of preparation

For the purposes of this report, in the table on page 9, we have provided an updated range of indicative financial outcomes for the House Estate on a prudent but realistic basis, consistent with that reflected in our last report.

Crucially, the updated outcome ranges reflect the settlement reached with LBF and assume that the required approvals for the LBI and LBEF settlements are obtained in due course. Additionally, important and material assumptions have been made in respect of the likely financial implications that will arise from the Consensual Proposal insofar as this will affect recoveries to the House from client debtors and unsecured claims against the House from potential Client Assets shortfalls.

In the updated indicative financial outcome statement, we have identified c.£1.7bn of Affiliate claims which are classified as ‘Shareholders’ claims’. Pending resolution of the Waterfall Application, the precise ranking of these claims and their impact on the claims of other unsecured creditors remain to be determined.

Movements in the indicative financial outcome

The updated Low case outcome has materially improved since our previous report, largely due to reduced Affiliate creditor claims as well as the reduced House impact arising from the Client Money estate and the improved estimate of future House recoveries that are generated by the various recently negotiated Affiliate settlements, which were previously only valued in a High case scenario.

The updated High case outcome has also improved, due to better than expected recoveries in the period, an increase in the estimate of future recoveries and a reduction in claims, largely facilitated by the LBI settlement.

Client Money

The House impact arising from Client Money in the Low case scenario has improved by c.£0.5bn, reflecting a combination of beneficial assumptions arising from the assignments to LBIE’s nominee of any Client Money owed to LBI, LBF and certain third parties.

In the High case scenario, we have assumed some limited further beneficial assumptions arising from the assignments, combined with a higher level of Client Money recoveries from third parties than had previously been the case.

Affiliate settlements

The assumed settlements enable the release of substantial claim reserves previously included in the Low case scenario (principally, LBF c.£11.2bn, LB Lux c.£11.8bn, LBEF c.£8.8bn and Lehman Brothers Equity Finance (Cayman) Limited c.£0.9bn).

The LBI and LBF settlements also secure the recovery of certain House Customer Property and receivables, giving rise to an estimated aggregate improvement in future Affiliate recoveries of c.£0.7bn in the Low case scenario and c.£1.0bn in the High case scenario.

Consensual Proposal to Omnibus claimants

The Consensual Proposal and related matters are currently estimated to result in an improvement of c.£0.8bn and c.£0.6bn on a Low case and a High case scenario respectively in recoveries from clients that are indebted to LBIE, as well as in a material reduction to the provision for Client Assets claimant shortfalls. In our last report, the Low case outcome assumed the recovery of only the ‘usable’ LBI determination of c.\$1.9bn, which gave rise to significant potential Client Assets claimant shortfalls. The LBI settlement and Consensual Proposal together enable us to reduce the Low case shortfall estimate by c.£2.2bn and the High case shortfall estimate by c.£0.3bn.

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 for unsecured creditors. It is important to note that this is an indicative financial outcome range, subject to change and to the exclusion of interest that might become payable on claims. It should be read in conjunction with the notes on the next page and the narrative and assumptions set out elsewhere in this report.

Page	House Estate	Notes	Low £bn	High £bn
32	Cash deposits and short-dated government bonds		10.0	10.0
33/34	Add back: interim dividends paid (c.£1.8bn) and accrued (c.£0.1bn) to date		1.9	1.9
	Net Client Money impact on the House Estate	1	(0.1)	0.5
Projected future recoveries				
22	House third party debtors		0.2	1.3
11	Affiliate debtors		0.8	2.5
23	House securities		0.1	0.3
25	Client Assets claimant debtors		0.8	1.4
	Total projected recoveries		13.7	17.9
	Priority claimants	2	(0.5)	(0.2)
	Future estimated costs	3	(1.5)	(1.2)
	Funds available for unsecured creditors		11.7	16.5
Creditors				
18	Unsecured creditors		(16.1)	(12.4)
26	Client Assets claimant shortfalls		(0.6)	(0.2)
12	Affiliate creditors		(2.4)	(1.6)
	Total		(19.1)	(14.2)
	(Deficiency)/surplus before Shareholders' claims and interest		(7.4)	2.3
15	Shareholders' claims		(1.7)	(1.7)

Reconciliation of movements between reporting dates

The table below provides an overview of the movements between the current range of indicative financial outcomes and that shown in our previous report.

Movements in indicative financial outcome September 2012 – March 2013	Low £bn	High £bn
(Deficiency) before Shareholders' claims and interest at September 2012	(46.5)	(0.8)
Improvements		
Net recoveries realised in the period	0.9	0.9
Net projected future recoveries	1.2	0.9
Net Client Money impact on the House Estate	0.5	0.5
Unsecured creditors	1.3	-
Client Assets claimant shortfalls	2.2	0.3
Affiliate creditors	33.0	0.5
(Deficiency)/surplus before Shareholders' claims and interest at March 2013	(7.4)	2.3

Notes to indicative financial outcome

1. Net Client Money impact on the House Estate

We set out in the table below a high level analysis showing illustrative Low and High case outcome scenarios for the Client Money impact on the House Estate. To reflect a combination of assumptions arising from assignments of LBI, LBF and certain other Client Money claims to LBIE's nominee, in the table below, no provision is made for these claims or for any future proceeds of Tracing into House funds. This illustrative outcome scenario is subject to change.

Pre-Administration Client Money estate	Low \$bn	High \$bn
Projected recoveries		
Funds held at 14 March 2013	1.2	1.2
LBB (note 1)	-	0.8
LBHI guarantee (note 2)	0.2	0.2
LBI disputed accounts	0.1	0.1
Total recoveries	1.5	2.3
Claims		
Street	(1.7)	(1.6)
Less: waivers and assignments (note 3)	0.5	0.5
Affiliates (note 4)	(0.1)	(0.1)
General reserve (note 5)	(0.3)	(0.3)
Total claims	(1.6)	(1.5)
(Deficit)/surplus impact on House (\$bn)	(0.1)	0.8
(£bn)	(0.1)	0.5

- The High case scenario assumes that LBB eventually pays a total dividend of 80% against LBIE's claim of \$1bn.
- Both the Low and High case scenarios assume that LBIE receives the maximum forecast LBHI dividends on its guarantee claim because in both scenarios it is assumed that there remains a shortfall on LBIE's recovery direct from LBB.
- c.\$0.5bn of third party Client Money claims have been waived or assigned to LBIE's nominee in exchange for admission as an unsecured claim. When comparing the indicative financial outcome (page 9) with that included in our previous report, this has contributed to an improvement in the net Client Money impact on the House Estate, largely offset by a matching increased provision within unsecured creditors.
- Excluding LBI and LBF (claims are assumed to be assigned to LBIE's nominee).
- The general reserve relates to the continuing uncertainty of outcome of Client Money claims agreement and costs associated with the process.

2. Priority claimants

Priority claimants include the potential liability for the Lehman Brothers Pension Scheme deficit, certain indemnities given post-Administration and other potential claims that could crystallise in certain circumstances and rank for payment in priority to ordinary unsecured creditors.

3. Future estimated costs

Notwithstanding the passage of a further six months in the Administration, this estimate remains unchanged pending further material progress towards resolving the major outstanding issues, which in due course will enable a more accurate and detailed assessment of the future costs that will be incurred in finally resolving LBIE's affairs.

Section 4:

House Estate – Affiliates

Highlights

- LBI settlement signed on 21 February 2013, based on the non-binding heads of terms as set out in the last progress report. The settlement is conditional on various motions being approved by the US Bankruptcy Court, including LBI's separate settlement with LBHI, and an order by the UK High Court.
- LBF settlement signed on 20 February 2013, which provides for claims agreement and for the allocation of assets and asset proceeds custodied at LBIE. The necessary Swiss consents were obtained and it became effective on 2 April 2013.
- LB Lux settlement became effective on 4 October 2012, removing the majority of the inbound LB Lux claims of c.£11.8bn, with LBIE withdrawing from all litigation proceedings in the Luxembourg Courts.
- LBEF settlement signed on 15 March 2013, withdrawing the inbound claims relating to unfunded warrants and a closed-out derivatives claim. The settlement is currently awaiting approval from the Luxembourg Court.
- A joint application was made to the UK High Court to seek a determination on various issues concerning the ranking of post-Administration interest on ordinary unsecured claims and certain other issues relating to contribution rights and claims with LBIE's Shareholders.
- The Extended Liens UK High Court hearing took place in late September 2012, with judgment being found in LBIE's favour, but is now subject to an appeal.
- The BTB UK Appeal Court hearing was held in the period and a favourable judgment was handed down on 14 March 2013, albeit in the meantime the commercial impact of this matter had been incorporated into the LBF settlement agreement.

Indicative outcome from Affiliate relationships

The tables opposite and overleaf illustrate LBIE's current view of the range of likely outcomes from its different debtor and creditor Affiliate relationships as at 14 March 2013.

This update assumes that the settlements announced with LBI and LBEF will be duly approved. To the extent that this assumption proves invalid, this could lead to a material reassessment of the information and observations set out below.

As a result of the recent settlements, the Low case scenario for inbound claims shows a c.£33.0bn aggregate reduction. The corresponding benefit in the High case scenario is more limited, given the majority of this success had been assumed.

Debtors

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

	Sep 12 Low £bn	Sep 12 High £bn	Mar 13 Low £bn	Mar 13 High £bn
Outbound claims (note 1)				
Unresolved relationships	1.9	4.9	1.1	1.1
Settled relationships				
LBI (note 2)	-	-	3.2	3.2
LBF (note 3)	-	-	0.2	0.2
LBHI and others	0.7	0.7	0.7	0.7
LBHK	0.6	0.6	0.6	0.6
LB Lux (note 4)	-	-	-	-
Total claims	3.2	6.2	5.8	5.8
Total estimated recoveries	0.1	1.5	0.8	2.5

1. Outbound claim balances and recoveries in currencies other than sterling are translated at exchange rates as at the reporting date.
2. LBI is now shown as a settled relationship. The settlement is currently awaiting approval from the US and UK courts.
3. The net claim value under the LBF settlement is c.\$0.25bn, after offset by a c.\$0.2bn cash payment to LBF at closing.
4. LBIE has no direct claim against LB Lux, but will recover value from it indirectly through LBIE's separate settlement agreement with LBHI.

Progress

Unresolved relationships

The unresolved claim amounts have been revised to reflect LBIE's current view of these amounts, taking into account settlements made in the period and the amounts at which unresolved balances are now thought likely to settle. There is one major UK Affiliate claim unresolved, with the remainder of unresolved claims comprising a larger number of smaller balances, including LBIE's financing claim against LBB, which is unlikely to be resolved until the LBB Client Money litigation is concluded.

Settled relationships

LBI

The financial impact of this settlement is summarised below. The final court approval is expected to be obtained from the UK High Court in early May 2013, enabling the final settlement conditions to be satisfied by 31 May 2013.

The claim and indicative recovery estimates set out below are reflected within the 'LBI' and 'Total estimated recoveries' lines respectively in the table on page 11.

LBI	Indicative recoveries		
	Mar 13 Claim \$bn	Mar 13 Low \$bn	Mar 13 High \$bn
Customer Property claim	0.5	0.5	0.5
General Estate claim	4.0	0.4	1.2
Client Money assignment (note 1)	-	-	-
Trust Property assignment (note 2)	0.3	-	0.3
Total (\$bn)	4.8	0.9	2.0
Total (£bn)	3.2	0.6	1.3

1. See Section 7.
2. Comprises various securities and derived income custodied at LBIE.

LBF

Settlement with LBF has now been reached with the resulting House recovery estimated at up to c.\$0.25bn net.

LB Lux

Under the settlement previously reached with LBHI, LBHI's recoveries from LB Lux will be shared with LBIE. LBIE has no direct claim. LBIE continues to offer support to LB Lux in order to help to maximise its estate.

LBHI and its US debtor affiliates formerly in Chapter 11

Dividends of c.£10m were received during the period from the US debtor affiliates.

LBHK

LBHK comprises seven legal entities set out in Appendix G. LBIE's recovery of its assets from LBHK still remains contingent on the outcome of the Hong Kong legal proceedings regarding Extended Liens. Given the recent successful outcome from LBIE's UK High Court Extended Liens application, it is anticipated that the Hong Kong follow-on proceedings will take place later this year or in early 2014, although this should not be taken as a timing estimate for the return of the impacted assets.

Creditors

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

	Sep 12 Low £bn	Sep 12 High £bn	Mar 13 Low £bn	Mar 13 High £bn
Inbound claims (note 1)				
Unresolved relationships				
LBB (note 2)	(0.6)	-	(0.6)	-
Others	(1.9)	(0.9)	(0.7)	(0.5)
Assets held by LBHK (note 3)	0.4	-	0.5	-
Settled relationships				
LBI (note 4)	-	-	-	-
LBF	(11.2)	-	-	-
LB Lux	(11.8)	(0.1)	(0.2)	(0.1)
LBEF (note 4)	(8.8)	(0.1)	(0.1)	(0.1)
LBJ	(0.3)	(0.3)	(0.3)	(0.3)
LBHI and others	(0.1)	(0.1)	(0.1)	(0.1)
LBHK	(1.0)	(0.5)	(0.7)	(0.3)
LBS	(0.1)	(0.1)	(0.1)	(0.1)
Other	-	-	(0.1)	(0.1)
Total claims	(35.4)	(2.1)	(2.4)	(1.6)

1. Inbound claim balances in currencies other than sterling are translated at exchange rates as at 15 September 2008.
2. c.£625m represents the unresolved LBB counterclaim against LBIE, without set-off.
3. The Low case scenario assumes that in order to satisfy valid claims against LBIE certain Affiliates assert liens over LBIE assets held by LBHK. The value of those LBHK assets has been reassessed since the last progress report.
4. LBI and LBEF are shown as settled relationships, albeit formal approval is awaited for both.

Progress

Unresolved relationships

LBB

Efforts continued to negotiate a settlement with the LBB officeholders in respect of LBIE's own Client Money and net unsecured claims into LBB, as well as LBB's c.£0.6bn counterclaim into LBIE.

LBB's pursuit of a c.£0.6bn (\$1bn) claim into LBIE (effectively a counter to LBIE's \$1bn Client Money claim against LBB) continues to be an obstacle to progressing an overall settlement. This counterclaim was dismissed on jurisdiction grounds by the German Appeal Court in December 2012, but that court did grant LBB the right to further appeal to the German Supreme Court, which LBB has now done. A German Supreme Court hearing is unlikely before 2014.

Other Affiliates

Claims from 41 other Affiliates remain unresolved. LBIE continues to engage with these remaining Affiliates with the objective of resolving and admitting their claims as quickly as possible.

Other Affiliates include one significant unresolved UK Affiliate relationship, Storm Funding Limited, in respect of which settlement is expected in the next six months.

Claims made by LBIE's Shareholders are discussed separately below.

Settled relationships

LBI

Settlement discussions

Conclusion of the LBIE/LBI settlement agreement is set to be a defining moment within the Administration, given the many far-reaching aspects of the LBI relationship with LBIE that will be resolved.

Full details of the settlement agreement have been disclosed in a recent website update and are not repeated here. The headline terms (other than with respect to the Omnibus claim – which are discussed in Section 6) are set out below:

- LBI has no continuing claim against LBIE;
- LBI to stipulate claims in favour of LBIE for its own account for exactly \$0.5bn and \$4.0bn against the Customer Property and General Estate respectively;
- LBI to indemnify LBIE for up to \$0.78bn in respect of certain liabilities that LBIE may owe to BarCap (see page 19 for further detail);
- LBI to assign its Client Money and Client Assets claims against LBIE to LBIE's nominee and to LBIE respectively; and
- ownership of certain accounts which were disputed between LBI and LBIE are resolved.

The settlement agreement is conditional upon the following matters:

- an approved settlement being reached between LBI and LBHI (which was announced in conjunction with LBI's settlement with LBIE and is due to be approved by the US Bankruptcy Court at the same time as the LBIE settlement);

- LBI agreeing methodologies for dealing with post-bankruptcy income derived from securities and being able to satisfy all allowed Customer Property claims in full;
- the claims of duplicate claimants (largely relating to protective claims by Client Assets claimants of LBIE) being expunged; and
- the approval of the US Bankruptcy Court (hearing on 16 April 2013) and receipt of a UK High Court order (hearing on 2 May 2013).

The LBI settlement is expected to become effective during May 2013.

Litigation

Litigation of LBIE's claims against LBI has been stayed pending approval of the settlement.

Omnibus Customer claim

The greatest direct House benefit from the Omnibus Customer claim derives from the minimisation of Client Assets shortfall claims that would otherwise be made against LBIE and maximisation of debtor recoveries that can now be achieved. These matters are discussed further in Section 6.

LBF

LBF filed a Proof of Debt of c.£11.2bn in July 2012. Ahead of payment of LBIE's first interim distribution to unsecured creditors, LBF agreed to cap its claim at c.£2.9bn for reserving purposes, for the first interim distribution only.

Following extensive engagement between the parties, on 20 February 2013, LBIE and LBF signed a settlement agreement which became effective on 2 April 2013. This agreement settles all outstanding issues and litigation between the parties, subject to certain limited exceptions. In particular, the settlement reduces LBF's unsecured inbound claim against LBIE to nil (subject to one matter which remains to be negotiated) and LBF's Client Money claim, if any, is assigned to LBIE's nominee. It also provides for LBIE to retain a net \$250m from assets and cash held by LBIE for LBF, subject to resolution of Extended Liens.

Under the settlement terms, certain items were excluded, including claims arising from LBF's interactions with LBEF. As part of the subsequent agreement reached with LBEF, discussed below, LBF has since confirmed that, subject to the LBIE/LBEF settlement becoming effective, it has no claim to lodge in respect of this excluded item.

LB Lux

The Proof of Debt filed by LB Lux in July 2012 included a counterclaim to LBIE's own c.£3.7bn claim against LB Lux and an additional claim of c.£8.1bn relating to the alleged post-Administration failure of LBIE to continue with the pre-Administration provision of services to LB Lux. LB Lux asserted that c.£11.5bn of its total claim should be treated as an expense in the LBIE Administration.

Following successful negotiations as detailed in the last progress report and approval by the LB Lux creditors and the Luxembourg supervisory court on 4 October 2012, the majority of the unsecured claim and the entire expense claim were withdrawn. In return, LBIE withdrew from all associated litigation proceedings in the Luxembourg Courts.

The settlement became effective on 4 October 2012, allowing:

- the release of claim reserves (c.£11.5bn) ahead of the first interim unsecured distribution on 30 November 2012; and
- LB Lux to rank as an unsecured creditor of LBIE for c.£61m, whilst preserving its right to also claim for certain limited Trust Property.

A formal Trust claim for c.£0.2bn has recently been lodged by LB Lux and is being reviewed.

LBIE continues to commit resource to working with the LB Lux liquidators and with LBHI to maximise the value that will accrue to LBIE in due course under its separate settlement with LBHI.

LBEF

LBEF filed a Proof of Debt of c.£7.7bn in July 2012. The claim represented the full nominal value of unfunded warrants issued by LBEF outstanding at the date of its insolvency (c.£6.6bn) and a purported derivatives exposure of c.£1.1bn.

Historically, LBEF issued blocks of equity warrants (on Indian, Chinese and Indonesian stocks) to be held by either LBIE or LBI until sold to Street counterparties. Generally, the issuances were split equally between the LBIE and LBI depots. In excess of 95% of the warrant programme as at the date of Administration had not been sold to clients.

LBEF claimed the issue price for all the warrants against LBIE, regardless of where the warrants were held.

The derivatives exposure per LBIE records was closed out in 2007 and thus no liability to LBEF remains.

On 15 March 2013, the Administrators agreed a settlement allowing the:

- return or cancellation of the LBEF warrants within LBIE's control, leading to withdrawal of the associated LBEF claim;
- withdrawal of the LBI-related warrant claim;
- withdrawal of the closed-out derivatives claim; and
- agreement of an unrelated c.£57m general intercompany debt owed by LBIE to LBEF.

The settlement is subject to approval of the Luxembourg Court, which is expected imminently.

LBJ

On 31 October 2012, an inbound claim from LBJ was admitted for c.£0.3bn. By agreement, LBIE has deferred paying any dividend on this claim until such time as:

- it is satisfied that Extended Liens are removed, discharged or otherwise dealt with; and
- an asset return agreement, for the remaining LBIE assets held by LBJ (total c.£0.1bn), is executed and effective.

LBHK

During the past six months, agreement has been reached with LBHK on a number of the complex, post-settlement adjustments required to finalise the inbound claim of LBHK. These agreements have resulted in a c.£0.3bn and c.£0.2bn reduction in reserves for asset shortfall claims in the Low and High case scenarios respectively. It is hoped that further reductions will be agreed within the coming months.

LBS

The LBS claims confirmation hearing was held in the Curaçao Court on 14 December 2012. No third-party claims were made to either LBS or LBIE in respect of unfunded warrants and, as a result, LBIE's obligation in respect of any unfunded warrants has expired.

Following a recent meeting with the LBS officeholders, an outline timetable has been agreed for cancellation of the unfunded warrants, together with agreement of custody fees and the treatment of unsecured claims in both estates. LBS has also lodged an unrelated Proof of Debt of c.£61m against LBIE.

Other Affiliates

A settlement agreement with Lehman Brothers Equity Finance (Cayman) Limited was signed on 21 March 2013. The resulting agreed unsecured claim against LBIE is set at c.£8m, enabling a full release of an asset shortfall reserve of c.£0.9bn included in the Low case scenario previously.

Settlement agreements with a further four major UK Affiliates were also signed in the period, bringing the total to six settled major UK Affiliates, all at relatively immaterial amounts.

This progress has resulted in a reduction in continuing reserves for other Affiliate claims of c.£1.1bn and c.£0.3bn in the Low and High case scenarios respectively.

Litigation

The current status of legal proceedings relating to Affiliates is set out below.

BTB

The LBIE appeal of the April 2012 UK High Court judgment was heard by the UK Appeal Court in December 2012. The resulting judgment handed down on 14 March 2013 was in LBIE's favour. In the meantime, LBIE had reached a commercial settlement with the respondent, LBF, on a number of issues, including BTB. Accordingly, the judgment will now have no direct impact on the outcome for LBIE.

Shareholders' claims – c.£1.7bn

Proofs of Debt have been filed against LBIE by its Shareholders, LBHI2 and LBL, for c.£1.3bn and c.£0.4bn respectively. These claims remain subject to detailed due diligence to ascertain their appropriate quantum and the legal determination of their status. LBIE and the two Shareholders have made a joint application to the UK High Court to seek a determination on various issues relating to contribution rights and ranking priority. The hearing of this matter is scheduled for November 2013. In particular, the purpose of the Waterfall Application is to:

- address the status of claims against LBIE, filed by LBHI2 and LBL;
- ascertain the relative order of ranking for interest accruing on LBIE's liabilities (in accordance with the provisions of Rule 2.88 of the Insolvency Rules) and for the claims of LBHI2 and LBL, in the event that LBIE's funds for distribution are sufficient to settle in full the provable claims of ordinary unsecured creditors; and
- identify, to the extent that LBIE's funds for distribution are insufficient to settle the claims of ordinary unsecured creditors:
 - the obligations of LBL and LBHI2 as Shareholders to contribute to meeting the shortfall; and
 - the respective rights between the Shareholders.

The Administrators consider that the interest claims of ordinary unsecured creditors should be paid in priority to Shareholders' claims, whereas LBHI2 and LBL hold the contrary position.

LBHI has joined the application, given it holds the majority interest in any recoveries made by LBHI2, as has Lydian Overseas Partners Master Fund Limited which is an ordinary unsecured creditor of LBIE. This latter party has also raised a further point for consideration by the UK High Court, relating to the standing of claims subject to foreign currency losses arising during the period of Administration.

LBIE has not yet made a contribution claim against either Shareholder but reserves the right to do so. No estimate of recovery from such a claim has been assumed in the indicative financial outcome.

Lehman Brothers Pension Scheme deficit

LBIE is one of six Affiliates that the Pensions Regulator's Determinations Panel decided should receive a Financial Support Direction, in connection with the Lehman Brothers Pension Scheme deficit. The status of such a claim, should it be made eventually, is the subject of a UK Supreme Court hearing scheduled to take place in May 2013, the outcome of which will be reported to creditors in due course.

Extended Liens

A substantive UK High Court hearing was held in late September 2012, with judgment handed down in early November 2012.

The judgment considered the meaning and effect of the lien provisions in certain agreements between LBIE and LBF. The UK High Court found that clauses within the agreements comprise floating charges in favour of LBIE in respect of LBF debts. The enforceability of the charges against LBF is not affected by the various grounds of potential challenge considered by the UK High Court.

The UK High Court found that, whilst LBIE was in principle entitled to enforce the charges in respect of debts owed by LBF not only to LBIE but also to other Lehman entities, it is not obliged to do so. By common agreement, certain fact-specific questions (e.g. regarding the applicability of the charges to custodied assets) were not addressed.

In parallel with these legal proceedings, LBIE negotiated its settlement with LBF, albeit the outcome of these proceedings would have an impact on LBIE's ability to deal immediately with certain of LBF's assets which would accrue to LBIE under the terms of the agreement. The favourable judgment received in early November 2012 gave LBIE the right to deal with the affected assets, although a respondent to the proceedings, an LBHI-related entity, then sought permission to appeal. Permission was refused in writing, but was subsequently granted at an oral hearing on 22 March 2013. The timing of the appeal has yet to be notified. LBIE has lodged a cross-appeal on certain matters arising from the UK High Court judgment.

Affiliate securities and cash ring-fencing

Assets held in the House and Trust Estates which are still subject to Affiliate claims at 14 March 2013 principally relate to disputes arising pending final resolution of the Extended Liens issue. A summary of the affected assets and expected outcome is set out below.

Affiliate ring-fencing	Securities £bn	Cash £bn	Total £bn
Reported as at 14 September 2012	1.2	1.0	2.2
Sales and redemptions	(0.3)	0.3	-
Revaluations (note 1)	(0.1)	-	(0.1)
Returns to Affiliates (note 2)	-	(0.4)	(0.4)
Ring-fencing adjustments	-	0.2	0.2
Assets as at 14 March 2013	0.8	1.1	1.9

1. The net £0.1bn revaluations since 14 September 2012 includes £0.2bn of corrections to valuations on positions that following further diligence have been found to have no value.
2. Principally a return to LBEL of proceeds from sale of and derived income from custodied assets.

The affected assets comprise:

	Securities £bn	Cash £bn	Total £bn
Assets to be returned:			
LBF	0.3	0.2	0.5
Storm Funding Ltd	0.1	0.1	0.2
	0.4	0.3	0.7
To be retained by LBIE (note 1):			
LBF-related	-	0.3	0.3
Other Affiliate-related	0.1	0.2	0.3
	0.1	0.5	0.6
Pending resolution (note 2)	0.3	0.3	0.6
Assets as at 14 March 2013	0.8	1.1	1.9

1. The indicative financial outcome on page 9 and the table on page 11 include c.£0.1bn and c.£0.6bn in the Low and High case scenarios respectively.
2. Includes LBHK and other Affiliates in respect of which zero recoveries have been assumed in the indicative financial outcome.

The assets are currently held in the Administration as follows:

Held in:	Securities £bn	Cash £bn	Total £bn
House Estate (pages 23 & 34 respectively)	0.1	0.1	0.2
Trust Estate (pages 25 & 35 respectively)	0.7	1.0	1.7
Assets as at 14 March 2013	0.8	1.1	1.9

Section 5:

House Estate – non-Affiliates

Section 5.1:

Claims agreement

Highlights

- A first interim unsecured dividend (at a rate of 25.2%) and SCSO payments, together totalling c.£1.8bn, were paid to 1,766 claimants.
- The Administrators made significant progress in the six months to maximise the claims eligible to participate in the first distribution and subsequent 'catch up' dividends, in particular:
 - claims totalling c.£6.0bn were admitted for 1,530 counterparties; and
 - offers with a total value of c.£1.8bn were made to 928 counterparties.
- Cumulatively, as at 14 March 2013, LBIE Determinations totalling c.£8.3bn had been prepared and offered to 2,467 counterparties, with claims totalling c.£6.9bn having been agreed and admitted.
- The innovative, complex analysis that deals with counterparties that have LBI pending trades has continued to be refined, enabling 51 offers totalling c.£0.3bn to be made in the period. This approach facilitated a 'minimum unsecured claim' amount to be agreed with claimants whilst preserving their rights to contingent asset shortfalls.
- Offers rejected under the Consensual Approach are subject to a negotiation, typically commencing with requests for additional evidence. 157 claims with a total Proof of Debt value of c.£2.2bn are now subject to the process. In certain cases, the claims may ultimately require court adjudication if the parties cannot reach satisfactory resolution.
- The Administrators have commenced issuing formal claim rejection notices. In the period, 69 claims (totalling c.£142m) were formally rejected; a further 72 claimants (claims of c.£13m) withdrew their Proofs of Debt. To date, one creditor (claim of c.£124m) has formally objected to the rejection and has commenced litigation proceedings under Rule 2.78 of the Insolvency Rules 1986.

Indicative outcome

As at 14 March 2013, the estimated value of LBIE's liabilities was as shown opposite (this excludes claims from Affiliates or those arising in respect of Client Assets shortfalls).

	Indicative outcome		
	Proofs of Debt £bn	Low £bn	High £bn
Unsecured claimants			
Where Proofs of Debt have been filed:			
Street Creditors	(11.7)	(10.4)	(8.3)
Client Assets claimants* – with LBI pending trades	(3.3)	(3.3)	(2.5)
Client Assets claimants* – no LBI pending trades	(2.4)	(1.9)	(1.5)
Other third party creditors	(0.2)	(0.1)	(0.1)
Where Proofs of Debt have not been filed:			
Street Creditors	n/a	(0.3)	-
Client Assets claimants* – with LBI pending trades	n/a	-	-
Client Assets claimants* – no LBI pending trades	n/a	-	-
Other third party creditors	n/a	(0.1)	-
Total	(17.6)	(16.1)	(12.4)

* This excludes additional unsecured claims that may arise from any Client Assets shortfalls.

Where Proofs of Debt have been filed:

Low case outcome:

- for Street Creditors, Client Assets claimants with no LBI pending trades and other third party creditors – this scenario assumes the aggregate of the higher of the values of (a) filed Proofs of Debt; (b) LBIE's assessment of the claim value (except where claims have been agreed with creditors at lower levels); and (c) certain other specific adjustments; and
- for Client Assets claimants with LBI pending trades – this scenario assumes the aggregate value of all filed Proofs of Debt, adjusted to remove contingent Client Assets shortfalls that have been claimed (where it is apparent that these have been). Client Assets shortfall reserves are shown on page 26.

High case outcome:

- prepared on the same basis as the Low case scenario, but adjusted for certain elements of claim which the Administrators expect to agree at lower levels.

Where no Proofs of Debt have been filed: the Low case outcome represents LBIE's Consensual Approach value; the High case outcome excludes any provision for unfilled claims.

The reduction in the Low case outcome compared with the Proofs of Debt value predominantly reflects Proofs of Debt totalling c.£9.1bn that have subsequently been agreed at c.£7.1bn.

Claims agreement: status as at 14 March 2013

The current status of claims is summarised in the table below:

	No offers made			Offers made but not yet agreed			Claims agreed but not yet admitted			Claims admitted ^{1, 2}		
	Cpty No.	Proof of Debt £bn	LBIE view £bn	Cpty No.	Proof of Debt £bn	LBIE offer £bn	Cpty No.	Proof of Debt £bn	Agreed claim £bn	Cpty No.	Proof of Debt £bn	Admitted claim £bn
Unsecured claimants												
Where Proofs of Debt have been filed:												
Street Creditors ³	369	(2.8)	(0.3)	462	(2.6)	(0.8)	9	-	-	1,365	(6.3)	(5.1)
Client Assets claimants – with LBI pending trades	76	(1.9)	(1.0)	14	(0.4)	(0.3)	1	-	-	61	(1.0)	(0.8)
Client Assets claimants – no LBI pending trades	127	(0.5)	(0.1)	92	(0.1)	(0.1)	3	(0.2)	(0.2)	206	(1.6)	(1.0)
Other third party creditors ⁴	54	(0.2)	(0.1)	32	-	-	-	-	-	222	-	-
Total non-Affiliate creditors	626	(5.4)	(1.5)	600	(3.1)	(1.2)	13	(0.2)	(0.2)	1,854	(8.9)	(6.9)

1. The claims admitted population include 21 that also have a CME (c.£19m aggregate CME) and 831 (c.£32m aggregate value) that have accepted the SCSO.
2. c.\$0.5bn of Client Money claims have been waived or assigned to LBIE's nominee in exchange for admission as an unsecured claim. When comparing the indicative financial outcome (page 9) with that included in our previous report, this has resulted in an improvement in the net Client Money impact on the House Estate, offset by additional provision made within unsecured creditors.
3. Included within Proofs of Debt is c.£0.1bn for an unsecured claim from BarCap. This represents the difference between BarCap's Proof of Debt and the c.\$0.8bn indemnity provided by LBI in respect of this claim.
4. Includes 32 preferential creditor claims (<£1m) relating to certain former branch employees and where such claims were paid in full in the period.

Progress

Claims admittance

As at 14 March 2013:

- the Administrators had admitted 1,854 claims against the House Estate totalling c.£6.9bn;
- a further 13 claims (totalling c.£0.2bn) were agreed in value but not yet admitted for dividend purposes;
- offers totalling c.£1.2bn had been made to, but not yet accepted by, 600 claimants; and
- a further 626 creditors had submitted Proofs of Debt totalling c.£5.4bn where, due to specific legal, commercial and/or valuation issues, LBIE had not made offers to settle such claims.

Street Creditors

Significant progress was made in the period to maximise the level of claims eligible to participate in the first interim distribution. Specifically, in the period:

- extensive creditor engagement in reconciling and valuing claims enabled 693 offers, totalling c.£1.1bn, to be made to creditors;
- focused efforts to resolve legal issues, including claimants seeking to waive or assign their Client Money Entitlements, resulted in the vast majority of agreed claims being admitted for dividend purposes. In the period, 1,113 claims (totalling c.£4.4bn) were admitted; and
- a large number of low value Street Creditors (498 – c.£21m) accepted the SCSO.

Of the Street Creditors that are yet to receive offers (summarised in the table on the previous page), there are 192 counterparties (Proofs of Debt of c.£0.5bn) currently viewed by LBIE as debtors and 27 counterparties that have made damages claims against LBIE (totalling c.£0.8bn). The corresponding current LBIE view of the amounts owing to these counterparties is £nil.

Client Assets claimants

Material advances were made in the period by:

- issuing 'minimum unsecured claim' deeds to claimants with LBI pending trades. These were based on a set of complex calculations (which apply certain hypothetical assumptions regarding the settlement status of the pending trades) and provide both LBIE and its creditors with certainty over specific, non-contingent aspects of claims, whilst preserving claimant rights to Client Assets claims and any associated asset shortfall claims that might subsequently arise. In the period, detailed engagement with claimants to explain the approach enabled 51 offers to be made (totalling c.£0.3bn);

- issuing supplemental deeds, following the clarification of Client Money principles, to allow 238 claims to be admitted totalling c.£1.6bn; and
- offering the SCSO to enable claimants with ongoing or historical Client Assets claims to participate (94 counterparties – c.£5m).

As a result, as at 14 March 2013:

- 377 offers totalling c.£2.4bn had been made to Client Assets claimants; and
- 271 claims had been agreed (total value of c.£2.0bn), with 267 of these claims being admitted (value of c.£1.8bn).

Over the coming months (assuming completion of the LBI settlement), a key priority for the Administrators is to seek to agree claims with creditors where previously LBIE was unable to do so due to the impact of their LBI pending trades, and, where appropriate, to make 'top up' offers relating to any further unsecured claims of those creditors with 'minimum unsecured claims'.

Other third party creditors

These claims relate to expense creditors and former overseas branch employees.

In the period, further offers of c.£29m in aggregate were made to 149 claimants, and 179 counterparties with aggregate claims of c.£27m were admitted.

Of the total 222 admitted claims to date, 198 claimants (c.£6m) have opted to accept the SCSO in full and final settlement of their claims.

For the remaining 54 Proofs of Debt where no offer has been made, this reflects where further information is required from claimants, where legal advice is being sought or where claims are in the process of being withdrawn or rejected. A number of the expense claims are considered to relate to other Lehman entities, whilst some of the overseas branch employee claims are particularly complex to resolve, involving local employment law issues.

First interim dividend and small claims settlements

The deadline set for admittance of claims for inclusion in the first interim distribution of 31 October 2012 was extended to 2 November 2012 to assist US-based creditors affected at that time by the hurricane on the US east coast.

As required by the Insolvency Rules, a notice of declaration of a dividend was sent on 26 November 2012 to all creditors that had proved their debt and, for all claims yet to be admitted, the Administrators made a prudent reserve of c.£25.6bn in determining the interim dividend rate of 25.2%.

On 30 November 2012, the Administrators achieved a significant milestone by making the first interim distribution at a rate of 25.2% (c.£1.6bn) to unsecured creditors with admitted claims, and paid c.£25m to settle 654 claims under the SCSO.

Due to Extended Liens claims made by certain Affiliates, a small number of admitted creditors did not receive their full first interim dividend payment at the end of November 2012, with c.£44m being ring-fenced pending clarification of the correct recipient. Certain counterparties subsequently negotiated release or reduction of the asserted lien claims with previously withheld dividend payments then being made. As at 14 March 2013, a residual c.£21m remains ring-fenced.

To address claims admitted after 2 November 2012, the Administrators announced in November 2012 a first 'catch up' dividend and re-issuance of the SCSO, with both being paid on 28 February 2013 (based on claims admitted by 31 January 2013). At that time, a further c.£116m was paid to 219 unsecured creditors.

It is the Administrators' intention to continue to pay 'catch up' dividends on a regular basis to enable creditors to receive payment of previous interim dividends shortly after having had their claim agreed and admitted. Appendix C includes a timetable for future 'catch up' dividends and SCSOs, as well as associated deadlines for the execution of transfer notices.

Second interim distribution

As noted earlier, the Administrators intend to pay a second interim distribution in the reasonably near future, and further details will be provided in the 30 April 2013 webinar.

Pursuant to the Insolvency Rules, on declaring a second interim dividend, all unsecured creditors that have submitted Proofs of Debt will receive a written notice of declaration of the dividend (prior to the distribution), setting out certain matters, including the dividend rate of the second interim dividend, the total amount of dividend being distributed in respect of admitted claims and the level of reserves for unsettled claims.

For all compliant Proofs of Debt received by the Administrators and where the claim has not been admitted or rejected, the Administrators will make an appropriate reserve. Reserves will also be made for other relevant contingencies, including any relating to Client Money issues, such as Tracing.

Outstanding claims and reserving

Bilateral claims agreement

157 offers made under the Consensual Approach have been rejected by counterparties (the associated Proofs of Debt total c.£2.2bn).

To commence the bilateral negotiation process, initial requests for additional evidentiary documentation to substantiate the claims have been sent to 124 claimants.

Based on further evidentiary documentation received, revised offers have been issued with 15 claims being subsequently agreed (totalling c.£0.2bn, compared with Proofs of Debt of c.£0.3bn).

The focus of the bilateral negotiation process is to seek to agree, reconcile or cap claims in order to reduce the reserves required by the time of the second interim distribution. However, certain claims may ultimately require litigation.

Withdrawals and rejections

A number of claims submitted in fact relate to other Lehman entities or have not, to date, been adequately substantiated against LBIE. This has been communicated to the relevant counterparties and a withdrawal of the claim has been requested. For claimants that have proved unresponsive or unwilling to withdraw such claims, the Administrators have commenced issuing formal rejection notices to enable associated reserves to be released if no objection is filed with the UK High Court within 21 days of the rejection.

In the period, 72 claim withdrawals have been received (totalling c.£13m) and 69 rejection notices have been issued (Proofs of Debt totalling c.£142m).

Litigation

In certain cases, the bilateral claims process may ultimately require court adjudication if the parties cannot negotiate a mutually agreeable resolution. Similarly, a creditor may appeal the Administrators' rejection notice, and to date one has done so (a damages claimant, c.£124m claimed). Such litigation will inevitably extend the timescale to resolution and the ultimate release of reserves.

Section 5.2:

Asset and debt recoveries

Highlights

- Completion of negotiations with a further 74 debtor groups, including eight in the 'top 150'.
- Recovered c.£0.3bn from receivables and c.£0.3bn from the sale or redemption 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 (note 1)	1,751	6.3	0.2	1.2
Exchanges (note 2)	36	1.2	-	0.1
Client Assets claimants (note 3)	103	0.1	-	-
Total	1,890	7.6	0.2	1.3

1. Street counterparties are discussed below.
2. Receivables from Exchanges principally relate to funds due from a Taiwanese counterparty (see overleaf).
3. Receivables from Client Assets claimants represent amounts due to LBIE in excess of the value that is secured by Client Assets liens. Recoveries under liens are included elsewhere in the indicative financial outcome statement, within Client Assets claimant debtors.

Street counterparties

Indicative outcome

Indicative future recoveries from Street counterparties are summarised as follows:

	Cpty No.	Group No.	Mid mkt LBIE value £bn	Cash rec'd £bn	Required adjustments		Indicative future recoveries	
					Low £bn	High £bn	Low £bn	High £bn
Top 150 groups								
Completed	338	97	6.1	(4.9)	(1.2)	(1.2)	-	-
Not completed	215	53	3.9	(0.9)	(2.8)	(1.8)	0.2	1.2
Other street debtors								
Completed	584	442	0.4	(0.4)	-	-	-	-
Not completed	614	546	0.3	(0.1)	(0.2)	(0.2)	-	-
Total	1,751	1,138	10.7	(6.3)	(4.2)	(3.2)	0.2	1.2

The indicative future recoveries in the table above provide LBIE's current view of the remaining realisable value.

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 March 2013, c.£5.3bn has been recovered from counterparties by way of final settlement and c.£1.0bn has been received on account where final negotiations or litigation is ongoing, bringing the total cash and securities recovered to date to c.£6.3bn.

Cash of c.£0.3bn was collected during the period. The additional positive movement of c.£0.2bn since the previous progress report largely relates to a change in LBIE policy to report amounts received in local currency at the sterling exchange rate on the transaction date, rather than re-translating at each reporting date.

Settlements

Settlements were reached in the period with eight of the 'top 150' debtor groups and a further 66 groups outside the 'top 150'. Of the 'top 150' groups settled, highlights included:

- full and final settlement with a major Asian bank. As stated in the March 2012 progress report, there was an OTC derivatives valuation dispute with this counterparty which has now been resolved. A further c.£20m of cash was recovered by LBIE during the period, bringing the total recovered to c.£405m;

- settlement with a large US bank, representing the conclusion of a valuation and set-off dispute that had been ongoing since mid-2009. LBIE succeeded in recovering c.£161m in respect of the debtor balance and agreed a significant creditor claim in respect of other related entities' claims;
- settlement of a fund group comprising 33 individual Street debtors and agreement of a number of claims with related entities. Settlement of these debtors resulted in recovery of c.£26m; and
- agreement of an out-of-court settlement with a smaller derivatives counterparty, resulting in a further receipt of c.£6m, bringing the total to c.£11m, and withdrawal of the legal proceedings by LBIE.

Litigation and other resolution routes

Non-mutual set-off

LBIE continues to seek consensual resolution to disputes over non-mutual set-off. During the period, LBIE concluded a settlement with a significant European bank that had previously asserted such set-off, leading to recovery of c.£45m of cash by the House Estate. There are a number of other unresolved counterparties where this issue has arisen, which LBIE continues to progress.

ISDA Section 2(a)(iii)

During the period, LBIE agreed a settlement in respect of live derivative positions that had not been terminated with one further respondent to the Section 2(a)(iii) litigation. In addition, the remaining respondent's application to the UK Supreme Court for leave to appeal was refused during the period. LBIE continues to explore commercial solutions to resolve remaining live derivative positions.

Korea

During the period, a conditional agreement was reached with TrueFriend 4th Securitization Speciality Co. Ltd and Merit LLC (an Affiliate controlled by LBHI), which has resulted in the withdrawal of all litigation against LBIE Seoul branch. The branch will shortly be placed into solvent liquidation in order to commence the process to recover the remaining c.£155m of cash held there.

Taiwan

Litigation in Taiwan continues and, in late 2012, the Taiwanese High Court found in LBIE's favour, ruling that losses incurred by the plaintiff in dealing with Affiliates could not be recoverable from LBIE. The case has now been referred to the Taiwanese Supreme Court for a final decision, which is expected later this year. In addition to pursuing litigation, LBIE continues to seek a negotiated settlement. The assets currently trapped in Taiwan comprise c.£44m of Exchange receivables and c.£132m of House assets.

AG Financial Products Inc

The highest value ongoing non-Affiliate litigation relates to AG Financial Products Inc ("AGR"), which involves an OTC derivatives valuation dispute where LBIE has claimed c.\$1.4bn/c.£0.9bn. On 12 March 2013, the Supreme Court of New York granted AGR's motion to dismiss one of the three causes of action brought against AGR by LBIE. Unless overturned, this order will remove LBIE's ability to contest the value relating to nine of the 37 transactions underlying the dispute. The Administrators estimate these transactions to account for approximately \$0.5bn of the c.\$1.4bn of LBIE's claim. LBIE is currently reviewing the judgment and considering whether to appeal. The discovery process in respect of the remaining issues continues in preparation for substantive hearings in late 2013. On a Low case outcome, no recovery is assumed, in a High case following the order we have reduced the potential recovery to c.\$0.9bn/c£0.6bn.

House securities

Progress

As at 14 March 2013, remaining House securities can be categorised as follows:

				Indicative future recoveries	
	Note	Sep 12 £bn	Mar 13 £bn	Low £bn	High £bn
Available for sale	1	0.5	0.2	0.1	0.2
Held subject to client disputes	2	0.1	0.1	-	-
Held subject to Affiliate disputes	2	1.2	0.1	-	-
Residual assets held at Citibank	3	0.2	0.1	-	0.1
Total		2.0	0.5	0.1	0.3

1. During the period, c.£291m 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 may have an ownership claim, notwithstanding the fact that they were held by LBIE in a 'House' account prior to insolvency. Movements in the period mainly relate to sales of ring-fenced securities for Affiliates under interim management agreements (c.£323m) and the transfer of securities to Client Assets in the period (c.£705m), in order to comply with FCA Client Assets sourcebook ('CASS') requirements relating to the segregation of Client Assets, an exemption from which expired in the period.
3. Principally relates to the dispute in Taiwan referred to above.

The indicative financial outcome estimates for 'available for sale' assets 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 relevant third parties in due course.

Section 6:

Client Assets estate

Highlights

- Assuming it becomes effective, the LBI Settlement will secure a fund of c.\$9.1bn for return to LBIE's Omnibus Customer claimants.
- Reserves for Client Assets claimant shortfalls in the Low and High case indicative financial outcomes have been reduced by c.£2.2bn and c.£0.3bn respectively based on the LBI settlement.
- LBIE has published terms of a Consensual Proposal which will accelerate the return of value to these claimants. The Consensual Proposal acceptance conditions have been met with an overall acceptance rate in excess of 90%.
- Over-Claims of c.£0.3bn were materially resolved and/or reconciled in the period. A further c.£0.5bn of Over-Claims will be eliminated once the Consensual Proposal becomes fully effective.
- Over 1,100 individual holdings of Client Assets that were within the control of the Administrators were returned in the period, with a total value of less than £0.1bn.

Progress

LBI – Omnibus Customer claim

LBI settlement

During the period under review, efforts have been focused on:

- working with LBI to agree precisely what securities and cash will be recovered under the LBI settlement;
- developing a Consensual Proposal that could be used to accelerate the eventual return of the recovered assets to Omnibus Customer claimants. The Consensual Proposal was formally made to Omnibus Customer claimants on 28 February 2013; and
- building the appropriate infrastructure to ensure the orderly management and delivery of the Consensual Proposal once it and the LBI settlement become effective.

Consensual Proposal

The 31 January 2013 LBIE estimate of the total value of Omnibus claim securities and cash recoveries is set out below:

Value as at 31 January 2013	\$bn
Equity securities	3.7
Fixed income securities	0.7
Cash (including post-filing income)	4.7
Total	9.1

On 2 April 2013, the Administrators announced, following closure of the voting and offer period that support for the Consensual Proposal from Omnibus Customer claimants had been sufficient to ensure that the voting thresholds for the Consensual Proposal had been satisfied. The level of support was extremely high.

The Administrators will assess how to deal with non-consenting customers during the next six months.

Omnibus claim securities recovery

Work continues to prepare for the recovery of the Omnibus claim securities portfolio. The key activities are:

Portfolio liquidation

The majority of the securities will be liquidated shortly after receipt. Some will be retained pending resolution of claims of non-consenting customers or where considered commercially appropriate to do so.

US withholding tax

Due to a number of factors, including the mix issue impacting the composition of the securities, guidance is being sought from the US Internal Revenue Service with regard to the manner in which settlement payments should be treated for US withholding tax purposes. Updates on progress will be provided on LBIE's website in due course.

Dispute resolution

LBIE is continuing to assess the disputes notified by Omnibus Customer claimants to date and will expedite the resolution of as many of these as possible ahead of the first distribution under the Consensual Proposal.

Timetable and associated benefits to LBIE

The Administrators will provide a revised timeline once the LBI settlement becomes effective and a target date for the first distribution to Omnibus Customer claimants will be set.

The agreement of the LBI settlement and the approval of the Consensual Proposal will enable the progression of a number of material issues, previously blocked within the Client Assets estate, as follows:

- working with clients to agree indebtedness (including interest) to LBIE and taking steps to recover such amounts as and when distributions are made to clients;
- addressing estimates of Client Assets claimant shortfalls, now revised downwards based on the high level of expected return under the Consensual Proposal;
- revisiting the LBI pending trades exercise to confirm the outcome for the Trust and unsecured positions of customers with LBI pending trades, as discussed in Section 5.1, ensuring both outcomes are assessed on a basis consistent with the Consensual Proposal; and
- unlocking certain other client positions that had previously been blocked due to disputes with LBI.

Security transfers from House

	Mar 13 £bn
House transfers to Client depot	
Potential Affiliate assets transferred from the House depot	0.7

During the current period, securities that were previously ring-fenced in the House Estate for Affiliates were transferred to the Client Assets depot. The changes were effected to comply with FCA Client Assets sourcebook ("CASS") requirements following the expiry of a previous exemption. The eventual return of these securities to Affiliates or the House Estate (see page 16) is dependent on the resolution of outstanding disputes and final settlements being agreed with LBIE.

Client Assets analysis

Movements in the client depot during the period (excluding LBI-controlled securities and potential Affiliate assets transferred from House) were as follows:

	£bn
Reported as at 14 September 2012	0.7
Returns to clients and redemptions in the period	(0.1)
Revaluation, exchange rate and other adjustments	0.1
Client Assets as at 14 March 2013	0.7[^]

[^] Includes securities controlled by LBHK of c.£0.1bn (valued as at 12 September 2008) and is net of an aggregate c.£128m estimated Client Assets shortfall.

Client Assets returns

In the period, over 1,100 individual Client Assets holdings with a total value of less than £0.1bn were returned to counterparties. Since the CRA bar date, a total of c.6,800 individual holdings have now been returned to counterparties representing a total value of c.£13.6bn.

In the last 18 months, the major obstacles to returning Client Assets have arisen from LBI-related issues. With the successful resolution of LBIE's claims against LBI and the resulting anticipated return of the Omnibus claim portfolio from LBI, it is anticipated that many of these issues will be removed in the coming months.

Client Assets claimant debtors

	Mar 13 Low £bn	Mar 13 High £bn
Estimated Client Assets claimant debtors	0.8	1.4

A number of Client Assets claimants are also debtors of the House Estate and the House recovery from these debtors will be impacted by offsetting Client Assets shortfalls, if any. The majority of LBIE's debtors have Client Assets entitlements related to the Omnibus claim portfolio. With the framework for asset returns now settled in the Consensual Proposal, it is anticipated that the House will realise significant value from these debtors in the future.

As a result, our updated estimate of House recoveries that will be made from this source has improved by c.£0.8bn and c.£0.6bn in the Low and High case scenarios respectively.

During the latest six-month period, the House received c.£22m of cash collateral from Client Assets claimants to help to facilitate the return of assets that were within the control of the Administrators. This cash collateral remains ring-fenced pending resolution of LBI-related issues.

Excess segregated Client Assets

The ongoing identification of securities held in the client depot that were over-segregated at the point of LBIE's Administration resulted in some relatively small transfers to the House in the period. To date, a total of c.£0.5bn has been transferred to the House Estate from this source.

Over-Claims and ring-fencing

For certain Client Assets, LBIE has received duplicate claims for the same security. Until these Over-Claims are resolved or expunged, the affected Client Assets cannot be returned to their rightful claimants. To the extent that LBIE holds equivalent House securities, these are fully ring-fenced and are excluded from the House Estate.

An analysis of Over-Claims is set out below:

	£bn
Over-Claims at 14 September 2012	1.1
Over-Claims resolved or reconciled in the period	(0.3)
Total Over-Claims at 14 March 2013	0.8
Comprising:	
Over-Claims asserted for assets within LBIE's control	0.1
Over-Claims asserted for assets outside LBIE's control	0.7

In the period, Over-Claims on assets within and outside LBIE's control each reduced by c.£12m and c.£276m respectively.

Furthermore, it is anticipated that agreement of the LBI settlement and the approval of the Consensual Proposal will result in a further reduction of c.£0.5bn to Over-Claims on assets outside LBIE's control. The effect of this will be to enable the return of more Client Assets to their *bona fide* claimants.

Client Assets claimant shortfalls

	Mar 13 Low £bn	Mar 13 High £bn
Estimated Client Assets claimant shortfalls	(0.6)	(0.2)

c.£128m of the estimated Client Assets shortfalls relate to assets within LBIE's control and the remainder relate to assets currently controlled by other entities (most notably LBI). In light of the expected level of recoveries from the LBI settlement and the capped shortfalls contained in the Consensual Proposal, there has been a significant reduction in the estimated shortfall reserves on both the indicative High and Low case scenarios set out in this report. Reserves for shortfalls have reduced by c.£2.2bn and c.£0.3bn in the Low and High case scenarios respectively.

Non-consenting customers have not compromised their rights to a shortfall claim.

LBHK

The continuing Extended Liens litigation, both in the UK and Hong Kong, prevents the release of Client Assets held by LBHK on behalf of LBIE's clients.

Section 7:

Client Money estate

Highlights

- Established a distribution plan and infrastructure to enable an interim Client Money distribution in 2013.
- Identified in excess of 7,900 clients requiring a CM Determination, of which 99% have been completed.
- Communicated with all clients with a CME and those without a CME, which have not been previously resolved.
- Settlements agreed with both LBI and LBF assigning their Client Money claims, if any, to LBIE's nominee.
- c.\$0.1bn of post-Administration Client Money was returned to clients.

Progress

Pre-Administration Client Money

First interim Client Money distribution

The first interim Client Money distribution is planned for April 2013. The rate of distribution will be 23.2% recognising:

- the impact of last year's UK Supreme Court ruling which creates a significantly wider pool of eligible claimants, including, potentially, the very large claims of LBI and LBF. LBIE will continue to reserve for these pending determination of their validity; and
- the significant challenges remaining to enhance the Client Money estate through Tracing recoveries and through the ongoing litigation with LBB regarding the \$1bn Client Money deposited with LBB prior to LBIE's Administration.

Over the course of the last three months, there have been extensive communications with clients in order to agree claims.

Clients were advised that, in order to participate in the distribution, they must have executed a deed agreeing their CME by 22 March 2013.

As at this deadline, 34 clients (of which 31 clients had executed a deed as at 14 March 2013) had proceeded on this basis.

As is discussed below, the progress made to resolve the material Affiliate relationships may have a significant favourable impact on the timing and prospects for resolution of the Client Money estate.

Current profile of the eligible CME population is as follows:

CME population as at 14 March 2013	Note	Cpty No.
Total population		1,323
Less: currently 'roadblocked'	1	(220)
Potentially eligible for first interim distribution		1,103
Comprising:		
Resolved	2	601
Outstanding	3	502

1. There are a number of clients whose CME is contingent upon the outcome of matters which have not yet been resolved (e.g. depot breaks or the completion of the LBI settlement). Those clients are not able to participate in the first interim Client Money distribution and have been advised accordingly.
2. A significant number of clients have entered into agreements under which they have finalised their Client Money relationship with LBIE by assignment or waiver of their Client Money claims. As at 14 March 2013, the CME of 601 clients had been finalised, with 31 clients retaining their entitlement to participate in the first interim Client Money distribution and 570 assigning or waiving their entitlement.
3. LBIE has engaged with this population, with the exception of a small group for which no contact details are available. This category includes a significant number of clients where settlement offers have been made to agree the level of their CME, which may rank for a distribution from the Client Money estate.

Although 54% of the total population, where the CME can be agreed, has now been dealt with, the Administrators' ability to progress the remainder is often dependent on continuing client engagement across the various LBIE Administration work streams.

Subsequent and final Client Money distributions

In order to finally resolve LBIE's Client Money estate, there are a number of complex issues to be concluded, most of which are either currently the subject of a court process or will require court intervention in the future, unless a comprehensive out-of-court framework for consensual resolution can be agreed. These include:

- the recovery of Client Money from LBB;
- agreed determination of the LBF Client Money claim;
- agreed determination of the LBI Client Money claim;
- completion of the Tracing exercise;
- clarification of the definition of any costs that should be deducted from the Client Money pool; and
- obtaining a CM Bar Date from the UK High Court prior to the final distribution.

The Administrators are not currently able to estimate when these matters will be concluded, but are considering alternative means by which to accelerate their resolution.

CM Determinations

As previously reported, in May 2012, the principles to be applied to calculate CMEs were communicated to all known counterparties and other interested bodies. Engagement with clients has continued in the period, with no objections to the principles being received.

The review to identify relationships which potentially give rise to a CME was completed in the period, resulting in a population in excess of 7,900 clients for which a CM Determination was required. CMEs have been evaluated for 99% of this population, with the remainder having complex 'fact and circumstance-specific' issues preventing resolution rather than any objection to the principles.

Where the CM Determination indicates a CME, clients have been contacted and advised of that fact. Clients have also been notified where the CM Determination indicates that there is no CME. This latter population represents 84% of all CM Determinations.

A breakdown of the CM Determinations population is shown in the table below. The CME values include estimates where CM Determinations have not yet been completed.

CM population	Cpty No.	CME \$bn
No CME		
Third parties	6,401	-
Affiliates	197	-
Total	6,598	-
CME		
Third parties	1,309	1.7
Affiliates	12	0.1
LBI	1	1.4*
LBF	1	1.4*
Total	1,323	4.6
Total population	7,921	4.6

* Still to be validated.

Prior to undertaking the detailed CM Determinations, LBIE had estimated the aggregate CME at c.\$5.1bn.

Third party clients

Of the 7,710 third party counterparties, CM Determinations have been completed for all except 67 of these, where client-specific issues currently prevent resolution.

Affiliates

LBIE typically did not segregate funds for Affiliates.

Following further investigation, 211 Affiliates were identified where a review was required to determine whether that Affiliate has CME. As at 14 March 2013, CM Determinations had been prepared for 187 of these Affiliates. Of the 24 remaining, 11 have legal issues delaying progression and the others are in progress.

LBI

Under the LBI settlement agreement, LBI's Client Money claims, if any, will be assigned to a nominee of LBIE once the settlement becomes effective.

LBF

LBF has assigned any LBF Client Money claims to LBIE's nominee under the terms of its settlement.

The LBI and LBF claims included in the table on the previous page are LBIE estimates, based on a review of accounting records only. A number of complex legal questions need to be resolved before these claims can finally be determined.

For further commentary on the LBI and LBF settlements, please see Section 4.

Expedited resolution of the Client Money estate

The LBF and LBI settlements involve, as mentioned above, the assignment of their Client Money claims to LBIE's nominee. These settlements should open up possibilities for resolution of the Client Money estate. LBI and LBF had asserted by far the largest pre-Administration Client Money claims and, as LBIE did not generally segregate Client Money for Affiliates pre-insolvency, these two claims are at the heart of the Tracing issue. In addition, LBIE's nominee now holds, by assignment from third party counterparties, a significant percentage of the Client Money claims originally held by third parties.

The Administrators will consider how these initiatives may assist in their formulating a plan for distribution of the Client Money estate which will avoid lengthy processes and, very probably for some aspects, litigation, in order to determine the Client Money claims originally held by LBI and LBF and the full extent of Tracing into the LBIE House Estate and perhaps elsewhere.

Recoveries

The pre-Administration Client Money pool at 14 March 2013 contains c.\$1.2bn. This includes both recoveries and interest on funds held. Future recoveries may arise from:

Tracing into the House Estate

If eventually required, the detailed exercise of Tracing Client Money that has not been segregated and which is therefore held in the House Estate can only be undertaken, on a cost-effective basis, once the CM Determinations process is complete.

LBB/LBHI

Proceedings continue in the German Courts to recover \$1bn of pre-Administration Client Money held by LBB. The Frankfurt Court has previously ruled that the \$1bn LBIE Client Money claim into LBB should rank *pari passu* with other unsecured claims. LBB has appealed this judgment and LBIE filed its own response to the appeal in January 2013. The date for the next hearing of LBB's appeal in the Frankfurt Higher Regional Court has been set for 19 June 2013.

LBIE has a stipulated guarantee claim against LBHI to the extent that it is unable to recover all of the Client Money deposited with LBB pre-Administration.

Other recoveries

A small number of outstanding Client Money balances, principally in Korea and Taiwan, continue to be pursued. The return of these funds is dependent on regulatory clearances and the resolution of local court cases and recovery is unlikely to be secured before the end of 2013. Further commentary on LBIE's affairs in Korea and Taiwan is provided in Section 5.2.

A small Client Money balance will also be recovered from LBI under the terms of the LBI settlement.

Post-Administration Client Money recoveries and returns

Post-Administration third party funds

There has been an ongoing focus on identifying and resolving the complex legal issues that continue to obstruct the return of post-Administration Client Money.

c.\$0.1bn of post-Administration Client Money was received in the period and an offsetting, but not identical, c.\$0.1bn of post-Administration Client Money was returned to clients in the period.

As at 14 March 2013, there is a balance of c.\$1.2bn to be returned, of which the principal components are:

- c.\$0.6bn where there are legal or other dependencies which require resolution before the funds can be returned, e.g. completion of the LBI settlement and final resolution of remaining Client Assets returns which are impacted by legal disputes, including Extended Liens (see Section 4);
- c.\$0.3bn which is expected to be returned to clients upon completion of necessary further due diligence; and
- c.\$0.3bn of funds that require further investigation.

Post-Administration Affiliate funds

c.\$1.6bn of total funds previously ring-fenced in the House Estate (previously reported as c.£1bn cash as at 14 September 2012) for the benefit of Affiliates were transferred to the Client Money estate during the period. The transfers were made to comply with FCA Client Assets sourcebook ('CASS') requirements relating to the segregation of Client Assets, an exemption from which expired in the period.

Appendices

Appendix A:

Receipts and payments:

six months to 14 March 2013

House Estate receipts and payments: six months to 14 March 2013

House Estate	Notes	Total (GBP equivalent) at 14 March 2013 £m
Receipts		
Depot securities	1	720*
Counterparties	2	279
Client Money for onward distribution	3	43
Other income	4	235*
Total receipts for the period		1,277
Payments		
Dividends paid	5	(1,754)
Transfers to Trust	6	(988)
Affiliate settlements	7	(370)
Administrators' remuneration	8	(88)
Payroll and employee costs	9	(54)
Distribution of Client Money	10	(43)
Legal costs	11	(30)
Building and occupancy costs	12	(12)
Other payments	13	(67)
Total payments for the period		(3,406)
Net movement in the period		(2,129)
Balance at bank as at 14 September 2012 as previously reported		12,356~
Foreign exchange gain in the period		153^
Total balances as at 14 March 2013	14	10,380
Less: Funds held subject to potential third party claims	15	(414)
Total House Estate cash and bonds (see Section 3)		9,966#

* Includes an aggregate amount of c.£402m arising in the period which is potentially subject to Affiliate or other third party claims.

~ Balances held in foreign currencies at 14 September 2012 were €1,507m, \$2,171m and various currencies £142m (equivalent).

^ Receipts and payments in foreign currencies are now translated to sterling as at their transaction date, rather than period-end date as previously reported. The foreign exchange gain arises from holding foreign currencies throughout the six month period, which strengthened against sterling.

Balances held in foreign currencies at 14 March 2013 were €1,253m, \$562m and various other currencies £61m (equivalent). The majority of these amounts are held subject to finalisation of the Client Money Tracing rights review.

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.

The foreign currency translation methodology used for reporting purposes has changed from period-end rates to transaction date rates. This change is intended to facilitate creditors' better understanding of cumulative financial information set out elsewhere in this report.

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

1. Depot securities – sales and related income

Realisations of c.£0.7bn relate to the disposal or redemption of securities and derived income from depot holdings for the benefit of the House Estate or third parties.

2. Counterparties

Receipts include c.£0.3bn related to Street counterparties. Interim distributions of c.£14m were received from Affiliates, including a further distribution from LBHI and its US debtor affiliates.

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 10 below).

4. Other income

Other income comprises:

- c.£111m of corporation tax and income tax repayments received from HMRC and other European tax authorities in the period;

- c.£71m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts, of which c.£50m has been ring-fenced pending repayment (see notes 13 and 15 below);
- c.£22m collateral received from Client Assets claimants;
- c.£11m of bank and bond interest received; and
- c.£20m of other realisations.

5. Dividends paid

c.£1,727m first interim unsecured dividends and c.£27m settlements under the SCSO in the period.

6. Transfers to Trust

c.£1bn of funds held subject to potential Affiliate claims transferred to Trust in the period in order to comply with FCA Client Assets sourcebook ('CASS') requirements relating to the segregation of Client Assets, following cessation of a period of exemption.

7. Affiliate settlements

c.£370m payments from cash held, previously reported as being held for Affiliates, made in accordance with asset return agreements with two Affiliates.

8. 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.

9. Payroll and employee costs

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

10. Distribution of Client Money

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

11. Legal costs

Legal costs relate to advice given and court proceedings and litigation conducted in numerous jurisdictions in connection with a range of issues across the Administration.

12. Building and occupancy costs

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

13. Other payments

Comprise the following:

- c.£24m of VAT paid on invoices;
- repayment of c.£21m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see other income); and
- c.£22m of other sundry payments.

14. 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		8,134
Short-term deposits	1	2,037
Interest-bearing accounts		209
Total		10,380

1. Average rate of return for six months ending 14 March 2013 of euros 0.01%, sterling 0.28% and dollars 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 and quasi-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 12 weeks only for those banks that meet strict criteria – currently only two out of our 12 dealing counterparties.

Policy for government bonds

Eligible investments for the bond portfolios are short-dated government debt issued by the UK and the US and sterling debt securities issued by institutions benefiting from an explicit, unconditional and irrevocable guarantee from the governments of the UK and Germany.

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

15. Funds held subject to potential third party claims

House Estate	£m
Funds held subject to potential Affiliate claims	69
Funds held subject to potential other third party claims:	
Ring-fenced for Trust Property claimants	49
Cash collateral from Client Assets claimant debtors	158
Reserve for unpaid dividends pending resolution of Extended Liens proceedings	138
Total	414

Trust Estate receipts and payments: six months to 14 March 2013

Trust Estate	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m
Receipts					
Transfers from House	1	158	312	838	37
Redemptions, coupons, dividends and investment income		2	28	67	5
Funds received in error		7	3	2	2
Total receipts for the period		167	343	907	44
Payments					
Transfers to House	2	-	(13)	(80)	(14)
Transfers to clients		(1)	(23)	(45)	(9)
Return of assets		-	(27)	(12)	-
Return of funds received in error		(7)	(3)	(2)	(2)
Other payments		-	2	(2)	-
Total payments for the period		(8)	(64)	(141)	(25)
Net movement in the period		159	279	766	19
Balance at bank as at 14 September 2012 as previously reported		110	299	1,439	325
Net inter-currency transfers for six-month period to 14 March 2013		1	-	2	(2)*
Foreign exchange gain in the period		-	-	-	9*
Total balances as at 14 March 2013	3	270	578	2,207	351
Comprising:					
Reserve for potential Affiliate claims	1	159	313	853	39
Pre-Administration Client Money balance		9	27	1,112	7
Post-Administration Client Money balance		102	238	242	305
Total balances as at 14 March 2013		270	578	2,207	351

* Receipts and payments in foreign currencies are now translated to sterling as at their transaction date, rather than period-end date as previously reported.

- Transfers from House / Reserve for potential Affiliate claims**
Transfers of funds from House (c.£1bn GBP equivalent) relate to funds previously classified in the House Estate receipts and payments account as held subject to third party claims. The transfers in the period were made in order to comply with FCA Client Assets sourcebook ('CASS') requirements relating to the segregation of Client Assets, following cessation of a period of exemption.
- Transfers to House**
In the House Estate, corresponding receipts are included within the depot securities and other income lines.
- Investment profile**

Trust Estate	GBP £m	EUR €m	USD \$m	Various currencies £m
Short-term deposits	266	536	2,166	179
Interest-bearing accounts	4	42	41	172
Total	270	578	2,207	351

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 B:

Administrators' remuneration

Background

Details of the statutory framework for the approval of the Administrators' remuneration, the role of the 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 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 Q3 and Q4 2012 data packs which have been provided to the Committee and its Adviser.

Approvals by the Creditors' Committee

The Committee has reviewed and approved all time costs for the period to 31 December 2012, including the deferred element relating to 2012 that it was agreed would be subject to Committee review in early 2013.

The Committee has also approved remuneration arrangements for 2013, which again require deferral of a significant proportion of the Administrators' time costs that will be incurred in the calendar year. Approval of the deferred element will be considered in early 2014, enabling the Committee to judge the Administrators' performance against medium-term as well as short-term objectives during 2013.

The Committee has been provided with Category 2 disbursement information relating to the six-month period to 31 December 2012 amounting to £986,046, which it has duly approved for payment.

Analysis of time costs

In the six months to 31 December 2012, time costs of £72,965,462 have accrued, totalling 219,959 hours at an average hourly rate of £332 (previously £324).

The Administrators' time costs reduced by 6% in the period 1 July to 31 December 2012 compared with the previous six months. This reduction reflected the net effect of an increase in the Street and Middle Office work stream activities, where significant claims agreement work was carried out ahead of the first interim unsecured distribution, offset by significant reductions in the Affiliates work stream activity following the completion of certain detailed analyses (including the LBI litigation discovery process) required to progress the key Affiliate relationships.

The analysis excludes £163,665 (404 hours) of time costs deducted from taxation refunds received by LBIE, from the Lehman tax group representative member, LBL. This amount was paid to PwC by LBL and recharged to LBIE by deduction from the tax recoveries eventually refunded to it.

Cumulative time costs accrued to 31 December 2012 are c.£621m. Total Administrators' remuneration and disbursements paid to 14 March 2013 are c.£652m.

The continuing complexity of the issues facing the Administration has required the continued engagement of specialist resource staff. During the six-month period, some 619 (c.217 full-time equivalents) different UK and overseas staff members have been involved in the Administration to assist with the key work stream activities, including:

- unsecured claims agreement and the first interim distribution process;
- pre- and post-Administration Client Money resolution;
- Client Assets recoveries and returns;
- negotiations with key Affiliates; and
- underlying tax, regulatory and compliance responsibilities.

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 July 2012 to 31 December 2012.

Grade	Period 1 July 2012 to 31 December 2012	
	Hours	£'000
Partner	9,928	7,380
Director	13,286	7,695
Senior Manager	34,408	15,360
Manager	60,637	20,645
Senior Associate	72,162	17,090
Associate	29,538	4,795
Total	219,959	72,965

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

Activity		Period 1 July 2012 to 31 December 2012	
		Hours	£'000
Counterparties	Street	29,899	10,187
	Trust	40,749	13,478
	Affiliates	13,627	4,902
	Valuations	16,647	5,550
	Branches	4,553	1,856
Middle Office	Middle Office	28,214	9,154
Transaction Processing and Control	Transaction processing and control	18,671	6,062
COO	Administrators	9,029	4,223
	Chief operating officers	8,497	2,738
	Performance improvement and control	11,520	3,454
	Treasury	7,403	2,274
Other support functions	Tax	2,998	1,699
	Regulatory and compliance	4,855	1,235
	Information technology	20,599	5,306
	LBL recharges (see below)	2,698	847
Total		219,959	72,965

LBL recharges		Period 1 July 2012 to 31 December 2012	
		Hours	£'000
Employees		740	305
Estate accounting		665	201
Group services management		1,293	341
Total		2,698	847

Appendix C:

Future dividend payment dates

The table below summarises the timetable for recent and future ‘catch up’ dividends and SCSOs, including the date for the execution of transfer notices:

Cut-off date for claims agreement	Transfer notice deadline	Payment date (on or around)	Unsecured creditors		Memo: Client Money claimants	
			“Catch up” dividend	SCSO	First distribution	“Catch up” distribution
28-Feb-13	28-Feb-13	28-Mar-13	✓	✓		
22-Mar-13	22-Mar-13	23-Apr-13	✓	✓	✓	
30-Apr-13	30-Apr-13	31-May-13	✓			✓
31-May-13	31-May-13	28-Jun-13	✓			✓
28-Jun-13	28-Jun-13	31-July-13	✓			✓
9-Aug-13	9-Aug-13	30-Aug-13	✓			✓
30-Aug-13	30-Aug-13	27-Sep-13	✓			✓
27-Sep-13	27-Sep-13	31-Oct-13	✓			✓
31-Oct-13	31-Oct-13	29-Nov-13	✓			✓
29-Nov-13	29-Nov-13	20-Dec-13	✓			✓

Please note that:

- one or more of the above payment runs may also coincide with a second (and subsequent) interim distribution, when these are declared.
- the Administrators do not envisage extending the SCSO beyond the dates outlined above.

Appendix D:

Court update

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

Q4 2012	UK High Court	Extended Liens judgment
	UK Appeal Court	BTB appeal hearing
Q1 2013	UK High Court	Directions hearing in LBIE application to determine priority between subordinated debt and statutory interest and related issues (Waterfall Application)
	UK Appeal Court	BTB appeal – judgment 14 March 2013; LBIE successful Hearing of application for permission to appeal against the Extended Liens judgment
	German Higher Regional Court, Frankfurt	LBIE's appeal pleadings in the LBB Client Money proceedings

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

Q2 2013	UK High Court	LBIE English court application in connection with LBIE/LBI settlement
	UK Supreme Court	Appeal concerning the status of liabilities, connected with the Lehman group pension scheme deficit, which may be imposed by the Pensions Regulator on LBIE and others by way of financial support direction/contribution notice
	German Higher Regional Court, Frankfurt	Hearing in the LBB Client Money proceedings
	Luxembourg Court	Court approval of the LBEF settlement
	US Bankruptcy Court	Hearing to approve LBIE/LBI settlement
Q3/Q4 2013	UK High Court	Substantive hearing of the Waterfall Application
	UK Supreme Court	Judgment on pensions UK Supreme Court appeal expected
Unknown	UK Upper Tribunal (Tax and Chancery)	Reference by LBIE and others to the Upper Tribunal of a determination by the Pensions Regulator to issue a financial support direction against them (stayed pending outcome of UK Supreme Court case above)
	UK Appeal Court	Extended Liens appeal hearing
	German Supreme Court	Appeal by LBB of judgment relating to LBB's counterclaim into LBIE. Currently, there is no indication when LBIE needs to file its submissions, when the German Supreme Court will hear the case and when it will make its decision

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

Appendix E:

Statutory and other 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), PD Copley and R Downs (both appointed 2 November 2011) and JG Parr (appointed on 22 March 2013) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. MJA Jervis and DY Schwarzmann ceased to act on 2 November 2011. DA Howell ceased to act on 22 March 2013.
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).
Aims of the Administration:	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. 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.
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 was made in November 2012 at a rate of 25.2%. 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.
Creditors' Committee members:	Lehman Commercial Paper Inc. Ramius LLC GLG European Long Short Fund Lehman Brothers Asia Holdings Ltd During the period, Ramius Credit Opportunities Master Fund Limited resigned from the Committee and was replaced by Ramius LLC.

Appendix F:

LBIE contact details

General queries	<i>generalqueries@lbia-eu.com</i>
Employee claims queries	<i>LBIEHRqueries@lbia-eu.com</i>
Counterparty contact information	
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>
Trust Property claimants	
Client Assets (CRA signatories and Non-CRA clients)	<i>claimresolutionagreement@lbia-eu.com</i>
Client Money	<i>clientpositionresponses@lbia-eu.com</i>

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

Appendix G:

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. PD Copley and R Downs were appointed on 2 November 2011. JG Parr was appointed on 22 March 2013. 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.
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
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 FCA'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 any final distributions of pre-Administration Client Money
CM Determination	Client Money Determination	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
Consensual Proposal	Consensual Proposal	Proposal to LBI Omnibus claimants to settle on a consensual basis their claims in respect of securities and/or cash positions. In settlement of the claims, each customer which is a party to the Consensual Proposal will be entitled to have allocated to it a share of the proceeds of the securities and cash received by LBIE from LBI and potentially to have a shortfall claim against LBIE in limited circumstances
COO	Chief Operating Officers	Functions responsible for managing the operations of the organisation, allocating resources and supporting the other teams within the operating model
CRA	Claim Resolution Agreement	The 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
FCA	Financial Conduct Authority, previously referred to in earlier progress reports as Financial Services Authority	Regulator of providers of certain financial services in the UK, name change with effect from 1 April 2013
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

Abbreviation	Term	Definition
HMRC	HM Revenue & Customs	Organisation of the UK 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
LBFE	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
LBFI	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 of Reorganisation became effective on 6 March 2012
LBHI2	LB Holdings Intermediate 2 Limited	Affiliate entity subject to insolvency proceedings in the UK
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
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 Determination	LBIE Determination	Value of eligible unsecured claim determined by LBIE, derived from LBIE's own valuation methodology
LBJ	Lehman Brothers Japan Inc.	Affiliate entity subject to insolvency proceedings in Japan
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2008
LBS	Lehman Brothers Securities N.V.	Affiliates subject to insolvency proceedings in Curaçao, Kingdom of the Netherlands
Omnibus Customer claim (also referred to as the Omnibus claim)	Omnibus Customer claim	Element of LBI SIPA Customer Property claim relating to LBIE client positions
OTC	Over-the-counter	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
Over-Claims	Over-Claims	Proprietary claims made for or in respect of securities in an amount which exceeds the amount which appears as the claim entitlement to securities of that type as documented in LBIE's books and records
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

Abbreviation	Term	Definition
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
Shareholder(s)	Shareholder(s) of LBIE	LBL and/or LBHI2
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, <i>inter alia</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
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
Waterfall Application	Waterfall Application	A joint application by LBIE, LBL and LBHI2 to the UK High Court on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders

www.pwc.co.uk/lehman

© 2013 PwC. All rights reserved. Not for further distribution without the permission of PwC. “PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm’s professional judgment or bind another member firm or PwCIL in any way.

130408-162428-JW-UK

