
Lehman Brothers International (Europe) – In Administration

Joint Administrators' eleventh progress
report for the period from 15 September
2013 to 14 March 2014

11 April 2014

Important notice

Creditors will note that this report provides data relating to certain estimated future costs, recoveries and creditor claim amounts. Please note that there continue to be significant matters which remain unresolved that may materially impact any or all of these estimates and, in turn, the overall return for LBIE creditors.

Furthermore, 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.

On page 8 of this report, the Administrators have set out an updated range of indicative financial outcomes for unsecured creditors, for illustrative purposes only.

It is now apparent that in all scenarios a surplus of funds will be available after payment in full of the ordinary unsecured claims of creditors. The precise amount of that surplus is unknown at this stage, albeit the range of likely outcomes is narrowing as progressively more matters in the Administration are resolved, as too is the prospect of an eventual outcome outside of the range. The rights of creditors (including Shareholders) to share in the eventual surplus remain to be determined, albeit a number of issues in that regard were the subject of the Waterfall Application.

The Administrators reserve all rights concerning the relevance and calculation of Post-Administration Interest, Subordinated Debt and other non-provable claims against the LBIE estate that might eventually share in the surplus. No conclusion should be drawn or inferred from this report as to the way in which such claims will eventually be assessed.

The Administrators continue to caution creditors against using data in this report as a basis of estimating the value of their claims or the likely eventual dividend. **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 also expressly reserves all of its rights against third parties 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, certain elements of LBIE's assets continue to be denominated in currencies other than sterling.

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

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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.

This is the eleventh such formal update to unsecured creditors and it provides details of progress made in the 6-month period 15 September 2013 to 14 March 2014. 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. 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 6 May 2014, 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 LBIE 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 with the Committee to review progress and consult on major issues by way of physical meetings, telepresence or audio conference calls.

During the period, GLG European Long Short Fund resigned from the Committee.

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

Details of the Committee members are listed in Appendix E.

Future report and updates

The next formal progress report to creditors will be in 6 months' time.

In the interim, we will provide ad hoc updates in the event of any material developments concerning entitlements to the surplus or other significant matters, through the LBIE website, or by other means as appropriate.

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe)
In Administration

Section 2:

Executive summary

Introduction

Good progress has been made over the past 6 months enabling the Administrators to declare a fourth distribution that will take unsecured creditors to the significant milestone of a 100p/£1 dividend on ordinary unsecured claims.

Anticipating the need for the Administrators to deal with a surplus after payment of ordinary unsecured claims in full, much work has been done examining the different entitlements to it, their calculation and their respective priorities. Certain of these matters were addressed in the Waterfall Application. That judgment was handed down in the period and has informed our thinking. A number of creditors have been consulted by the Administrators, as has the Committee, and extensive further legal advice has been taken.

It has become clear to the Administrators that further directions of the UK High Court will be needed to resolve the legal uncertainty as to the full extent of the rights of creditors to Post-Administration Interest and non-provable Currency Conversion Claims, unless a compromise can be agreed between the major creditors (and thereafter supported by a requisite majority creditor vote). In pursuit of consensus, the Administrators developed a Surplus Entitlement Proposal, which was discussed with a number of LBIE's major creditors who signed a non-disclosure agreement for the Consultation Period ending 28 March 2014. Signatories agreed not to trade in LBIE claims until being 'cleansed' by the public disclosure of the Surplus Entitlement Proposal and certain related data and information on the LBIE website on 28 March 2014.

The Administrators are considering the feedback received from participants during the consultation process and will update creditors on their next steps in due course. The Administrators will continue to discuss the Surplus Entitlement Proposal with creditors but, at the same time, preparation is being made to seek permission to appeal certain aspects of the Waterfall Application judgment and to commence separate proceedings on a number of related matters concerning Post-Administration Interest and Currency Conversion Claims that are not addressed by the Waterfall Application proceedings, such as:

- the interpretation of the definition of 'Default Rate' in the ISDA master agreement in order to determine the entitlement of creditors to recover a compound rate of interest in excess of the rate prescribed by Rule 2.88(6) of the Insolvency Rules;
- the effect of Post-Administration Interest on the calculation and adjustment of Currency Conversion Claims; and
- the impact of the release and discharge clauses included in post-Administration documentation, such as the CRA and Claims Determination Deeds, on Post-Administration Interest and Currency Conversion Claims.

Resolution of at least some of the most significant complexities surrounding entitlements to the surplus is a prerequisite to distributions to unsecured creditors in excess of 100p/£1.

The Administrators will use the LBIE website to update creditors as matters progress.

Significant achievements in the period

Set out below is a summary of key achievements in the period.

Affiliates (Section 5)

A Hong Kong court ruling on LBHK extended liens has enabled asset exchanges between LBIE and LBHK, including House recoveries of £0.50bn to 14 March 2014.

The LBB settlement became effective on 14 March 2014, resulting in expected recoveries of at least £0.16bn and reduced inbound claim reserves of £0.58bn.

The Waterfall Application judgment in March 2014 decided that the Subordinated Debt is subordinate to provable claims, Post-Administration Interest and non-provable claims of other creditors, although the judgment is likely to be appealed.

Claims agreement (Section 6.1)

A third interim unsecured dividend (at a rate of 23.7p/£1) totalling £1.85bn, was paid on 29 November 2013 to 1,217 non-Affiliate claimants.

A fourth interim unsecured dividend (at a rate of 7.8p/£1), bringing the cumulative rate to 100p/£1, was announced on 28 February 2014, with a cut-off date for proving of 28 March 2014. Payment will be made on or around 30 April 2014.

Admitted/agreed claims have increased by 279 to 2,366, with the total admitted/agreed claim value increasing by £1.43bn to £9.92bn (including SCSO and CME claims). This reflects greater engagement by creditors following increases in the dividend rate.

House receivables (Section 6.2)

A total of £1.60bn was recovered in the period from debtors who were also Client Assets claimants, principally from appropriations out of the Omnibus Trust.

There has been an increased use of litigation to safeguard claims against debtors or prosecute recovery actions across debtor counterparties.

Omnibus Trust (Section 7.1)

A first distribution of \$7.81bn was paid from the trust on 26 September 2013, representing 100% of beneficiaries' Best Claim values. \$4.83bn was paid to beneficiaries, net of appropriations for House debtors, reserves for US withholding tax and other permitted deductions.

A second gross distribution of \$0.46bn (6% of Best Claim values) was paid on 30 January 2014.

LBIE, its withholding agent and the IRS have now agreed the treatment of the first distribution for US withholding tax and reporting purposes. Further agreements will be required on US withholding tax for the second and any subsequent distributions in order to distribute the funds remaining in the Omnibus Trust and bring it to a conclusion.

Other Client Assets (Section 7.2)

Progress has been made on returning the remaining securities held and preparatory steps were put in place to facilitate the onward transmission to clients of their Hong Kong custodied assets, most of which were received by LBIE on 14 March 2014.

Client Money estate (Section 8)

A further 194 CME counterparties (1,003 to date) have been agreed and resolved.

A Client Money settlement offer (at 100% of claim value) was made by the House Estate to all 55 counterparties who had signed a Claims Determination Deed which retained their CME, in order to fully resolve all of their positions. To date, offers have been accepted by 54 of these counterparties.

One of the most significant obstacles to resolution of the Client Money estate has been the LBB Client Money claim, and this obstacle was removed in the period, also enabling receipts by LBIE of \$0.21bn from LBHI under its related guarantee since the period end.

Court update

Judgments have been received in the period on the Waterfall Application and the Lehman Brothers Pension Scheme deficit issue. There remain frequent and regular UK High Court hearings on various bilateral counterparty issues, including appeals against rejections of Proofs of Debt, with less frequent hearings in other jurisdictions.

Overall progress since commencement of the Administration

Across the House Estate and the Trust Estates of Client Assets and Client Money, the key cumulative returns to date and total High case forecast returns are as follows.

	Mar 14 (to date) £bn	Total forecast £bn
House Estate returns		
Unsecured claims distributions to date/ High case final outcome	8.90	19.80
Overseas creditor settlements	0.21	0.21
Trust Estate returns – third party (excluding appropriations)		
Client Assets	14.00	14.10
Omnibus Trust	3.33	4.20
Pre-Administration Client Money (including payments in lieu thereof)	0.01	0.07
Post-Administration Client Money	1.82	1.91
Trust Estate returns – Affiliates (excluding appropriations)		
Client Assets	0.73	1.04
Post-Administration Client Money	1.32	1.77
Total returns to date/forecast	30.32	43.10

The forecast returns are indicative only.

Investment and currency policies

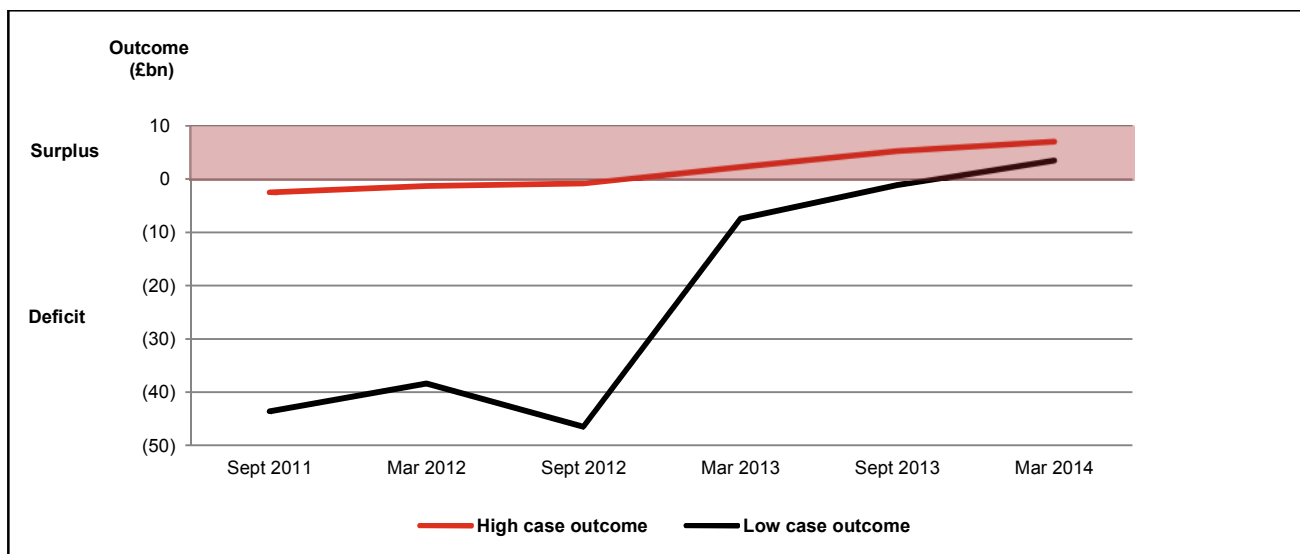
Our investment policies continue to focus on keeping the estates' funds secure, utilising a combination of money market deposits and securities where appropriate. During the period, the Administrators extended their hedging strategy to cover House assets at LBHK and the US dollar/sterling currency risk represented by the expected pre-Administration Client Money surplus which will transfer into the House Estate.

Human resources

As at 14 March 2014, the LBIE staff and contractor headcount had reduced to 330 (425 at 14 September 2013), reflecting the progress achieved and an ongoing review of resource requirements in the Administration going forward.

Indicative financial outcome

The updated indicative financial outcome range for unsecured creditors (before Subordinated Debt) that is set out in Section 3 of this report and in the graph below, now shows a surplus in both the Low and High case scenarios for the first time.



As the difference between the Low and High case scenarios has reduced, so too has the scope for the eventual outcome to be materially outside of this range.

Subject to a number of important assumptions, the potential value range of the House surplus before Post-Administration Interest, Currency Conversion Claims and the Subordinated Debt is estimated to be between £3.50bn and £6.99bn.

The key sensitivities to the eventual outcome that will be achieved are:

- the amount at which the remaining creditor claims are finally determined;
- the outcome of the litigation with AGR;
- the future recoveries from larger Affiliates and other debtors;
- the ability of the Administrators to mitigate or eliminate priority claims; and
- the level of future costs in the Administration.

Creditors should note that their individual entitlement to share in any surplus is likely to depend upon the timing of distributions made to them, the nature of their underlying contracts and the terms of any agreements with LBIE entered into by them post-Administration.

Priorities in 2014

The Administrators' priorities for 2014 are:

- the agreement and implementation of a solution for dealing with the entitlements to the surplus;
- dealing with the expected appeal of the Waterfall Application judgment to the UK Appeal Court;
- the agreement and admittance of unsecured claims;
- the progression of litigation, both in respect of debt recovery and unsecured claims;
- the resolution of outstanding US withholding tax issues for the affected Omnibus Trust and unsecured claimant populations;
- the progression of the Client Assets and Client Money estates by the finalisation and distribution of remaining entitlements followed by appropriate court processes, as required, to wind up the Trust Estates; and
- the ongoing operational simplification and associated cost reduction aligned with the evolving needs of the Administration.

Section 3:

Financial update

Indicative financial outcome

Set out in the table below is an updated summary of the Low and High case financial outcome scenarios for unsecured creditors. It should be read in conjunction with the notes attached and with the narrative and assumptions set out below and elsewhere in this report.

The Low case outcome has materially improved since our previous report, largely due to settlements reached with certain Affiliates and to the favourable progress in unsecured claims agreement at amounts below their originally claimed Proof of Debt values. The High case outcome has also improved, principally due to reductions in the value of unsecured claims.

Page	House Estate	Notes	Low £bn	High £bn	Difference £bn
32	Cash deposits and short-dated government bonds		6.42	6.42	-
32/35	Add back: interim dividends paid (£8.90bn) and accrued (£0.94bn) to date		9.84	9.84	-
27	Net Client Money benefit to the House Estate	1	1.17	1.22	0.05
Projected future recoveries					
20	House third party debtors	2	0.43	1.37	0.94
11	Affiliate debtors	3	0.70	0.94	0.24
	House securities	4	0.63	0.74	0.11
22	Client Assets claimant debtors	5	0.19	0.31	0.12
	Other		0.02	0.03	0.01
Total current and projected recoveries			19.40	20.87	1.47
	Priority claimants	6	(0.50)	(0.12)	0.38
	Future estimated costs	7	(0.95)	(0.95)	-
Funds available for unsecured creditors			17.95	19.80	1.85
Unsecured creditors					
16	Non-Affiliate creditors	8	(13.19)	(11.61)	1.58
11	Affiliate creditors	9	(1.26)	(1.20)	0.06
Total unsecured creditors			(14.45)	(12.81)	1.64
Surplus before Post-Administration Interest, Subordinated Debt and other non-provable claims			3.50	6.99	3.49

Notes

1. Net Client Money benefit to the House Estate

The amounts included in the outcome now assume that all remaining Client Money claims are assigned to LBIE's nominee in satisfaction of indebtedness to the House Estate or in exchange for unsecured claims.

The difference between the High and Low case benefits accruing to the House largely relates to different assumed dividend rates payable by LBB.

The major unresolved matter delaying resolution of the Client Money estate is the litigation between LBI and BarCap.

2. House third party debtors

The main variance between the Low and High case future recoveries relates to debts expected to be pursued using litigation.

The biggest single debtor that is subject to litigation is AGR. The Low case assumes that the AGR litigation is unsuccessful, and the High case assumes full recovery of the £0.55bn debt claim.

3. Affiliate debtors

The majority of anticipated future recoveries relate to LBIE's agreed claims against MCF and LBB and recoveries in relation to LB Lux. The increasing convergence of the Low and High case for future Affiliate recoveries reflects the recent settlements of remaining major Affiliate claims and the preservation of the value of the LBHK custodied assets by a hedge. The majority of these assets have recently been recovered.

The variance between the High and Low case reflects different assumed recovery rates payable by MCF and the exclusion in the Low case of LBHK custodied assets that are subject to competing claims.

4. House securities

Future recoveries relate to 'available for sale' securities (£0.08bn) and securities recovered from LBHK subject to forward sale (£0.47bn) held in the House depot. In addition, efforts continue to recover securities and derived cash held in Taiwan. Due to the complexity of negotiations in Taiwan, different recovery rates have been assumed in the High and Low cases. The High case also assumes further recoveries are made from potential excess segregated Client Assets.

5. Client Assets claimant debtors

Settlements have been reached with the majority, by value, of the remaining Client Assets claimant debtors, which include Omnibus Trust Non-Consenting beneficiaries and ineligible consenting beneficiaries. The next distribution from the Omnibus Trust will allow further recoveries to occur.

The difference in outcome scenarios reflects the increasing challenge of collecting debts on a consensual basis and the inherent litigation risk of pursuing debts through legal recourse.

6. Priority claimants

Priority claims comprise indemnities given post-Administration and certain other claims (including tax provisions) that could crystallise in certain circumstances. The Low case increase of £0.03bn since our previous report reflects a tax reserve relating to potential US withholding tax, offset in part by the expiry of certain indemnities and the removal of a specific reserve related to LBB following the recent settlement. In the High case scenario it is assumed that all but the tax-related contingencies either expire or are managed away.

7. Future estimated costs

The estimate of future costs has reduced by £0.25bn in both the Low and High case scenarios. Operational simplification plans continue to be developed and implemented, one of the results of which has been a reduction in headcount at 31 December 2013 with further reductions likely over the course of the remainder of this year. Costs continue to be kept under constant control and review.

8. Non-Affiliate creditors

The range of assumed total non-Affiliate unsecured creditors between the Low and High case outcomes has narrowed by £0.92bn since our previous report and the range is now estimated to be £1.58bn.

The Low case outcome assumes pending claims are agreed at the value of the claimed Proofs of Debt in most cases, whilst the High case assumes a proportion of these are ultimately admitted at lower values. The extent to which claims are agreed at lower values will depend on the outcome of negotiations and/or litigation.

9. Affiliate creditors

Following agreements in the period with a number of Affiliates, notably LBB, the difference between the Low and High case outcomes has narrowed significantly to £0.06bn. The variance principally arises from claims relating to pre-Administration structured transactions which are under negotiation.

Remaining unresolved claims relate to 18 Affiliates with a total Low case reserve of £0.18bn. Discussions to conclude these remaining claims are ongoing.

10. Surplus

Creditors should be aware that the methodology to calculate entitlements to the surplus is yet to be determined.

An assessment of the Subordinated Debt and LBIE's potential contribution claims against its Shareholders is excluded from the indicative financial outcome at present due to the complexity and potential impact of the uncertainties remaining to be resolved.

Section 4:

Surplus project

Introduction

As noted in the tenth progress report to creditors dated 11 October 2013, there are a number of factors affecting creditors' rights to participate in the surplus remaining after payment of ordinary unsecured claims in full. During the period, the Administrators have been working towards development of a simplifying methodology to determine creditors' entitlements to Post-Administration Interest and to claim for currency conversion losses arising on their admitted claims.

The judgment in relation to the Waterfall Application was handed down on 14 March 2014. In addition to other matters covered by those proceedings, the decision of Mr Justice David Richards confirmed the views of the Administrators that:

- both Post-Administration Interest on ordinary unsecured creditors' claims and any non-provable claims are payable in priority to the Subordinated Debt; and
- Currency Conversion Claims exist as non-provable claims to be paid after ordinary unsecured claims and Post-Administration Interest thereon.

Progress

The Administrators have engaged with a number of creditors over the past 6 months to understand further the different views in relation to claims to Post-Administration Interest and Currency Conversion Claims. As a result of this process, it has become clear that the opinions of LBIE's major creditors diverge widely in relation to a number of areas, particularly:

- the interpretation of the definition of 'Default Rate' in the ISDA master agreement used to determine the contractual interest rate applicable to ISDA claims;
- the impact of release and discharge clauses included in post-Administration contracts including the CRA and Claims Determination Deeds, on Post-Administration Interest and Currency Conversion Claims; and
- the effect of Post-Administration Interest on the calculation and adjustment of Currency Conversion Claims.

The legal issues in relation to these and other complex issues have been considered at length by the Administrators and their legal advisers, and the financial impact of different outcomes on creditors with different profiles have been modelled by the Administrators.

In view of the amount of time that it would be expected to take to obtain a determination of these issues from the UK High Court, the relative uncertainty of the final outcome and the risk of appeals, the Administrators consider that resolution by way of a compromise would best serve the interests of creditors overall. However, it is by no means certain that this will be achievable given the potential quantum of the surplus and the range of amounts recoverable by different creditors depending on the principles applied to determine entitlements and the apparent divergence of opinion on the various legal issues.

In order to inform their view regarding the feasibility of achieving a compromise, on 10 March 2014, the Administrators presented the Surplus Entitlement Proposal to a small number of LBIE's major creditors pursuant to a non-disclosure agreement. Between 10 March and 28 March 2014 the Administrators met with such creditors to discuss the Proposal and gather feedback.

The Surplus Entitlement Proposal and additional information shared during the Consultation Period, along with a list of frequently asked questions, were published on the LBIE website on 28 March 2014.

Planned resolution

The gap between the views of different creditors did not reduce significantly during the Consultation Period, and, in the Administrators' view, there was no immediate prospect of formulating a compromise for allocating the surplus that would be acceptable to all of the relevant majority of creditors.

The Administrators will engage further with creditors as they reflect on the Proposal and on the updated financial information included in this report, and will continue to evaluate the potential for a compromise. In this regard, LBIE is considering the development of a narrower plan that addresses the interest component of the surplus only. Such a plan might also include limited applications to the UK High Court on discrete issues, subject also to any appeal in relation to the priority of the Subordinated Debt.

In parallel with these steps, LBIE has also commenced preparations for a comprehensive application to the UK High Court for directions on all issues that impact upon the rights of creditors to an interest in the surplus and the distribution of that surplus in a timely manner. This reflects the real possibility that, ultimately, a consensual solution may not be achievable.

The Administrators will use the LBIE website to update creditors as matters progress.

Section 5:

House Estate – Affiliates

Introduction

This reporting period has seen LBIE conclude its remaining major Affiliate settlements, notably including LBB and Storm.

Sustained progress has also been made on finalising less material balances of inbound and outbound claims, together with realisation of value exceeding £0.70bn.

Shortly after the period end, £0.15bn was received as a first distribution share from LBHI with respect to LB Lux. £0.12bn was also released from segregated cash held for LBB since the period end.

Indicative financial outcome from Affiliate relationships

Debtors

The table below shows the movements of the estimated recoveries from Affiliate estates since our last report and the recoveries made in the period.

As a result of progress in the period, principally in respect of LBB, LBHK and MCF, the estimated recoveries in both the Low and High case scenarios have been revalued upwards, and significant cash recoveries have also been made in the same period.

Affiliate recoveries	Mar 14	
	Low £bn	High £bn
Future estimated recoveries as at 14 September 2013	0.90	1.35
Revaluations in the period		
LBB	0.16	0.01
LBHK	0.11	0.02
MCF	0.19	0.24
Others	0.06	0.04
Total revaluations	0.52	0.31
Less: recoveries in the period		
LBHK ¹	(0.50)	(0.50)
MCF	(0.10)	(0.10)
LBJ	(0.06)	(0.06)
Others	(0.06)	(0.06)
Total recoveries	(0.72)	(0.72)
Future estimated recoveries at 14 March 2014	0.70	0.94

1. Recoveries comprised £0.47bn of securities subject to forward sale contracts, £0.02bn of other securities and £0.01bn of cash.

Future recoveries by Affiliate are detailed below.

Affiliate recoveries	Mar 14	
	Low £bn	High £bn
LB Lux ¹	0.21	0.22
LBB ²	0.16	0.16
LBHK	0.10	0.15
MCF ³	0.15	0.25
Others ⁴	0.08	0.16
Future estimated recoveries at 14 March 2014	0.70	0.94

- LBIE has no direct claim against LB Lux but recovers value indirectly through LBIE's separate settlement agreement with LBHI.
- Recovery estimates reflect different assumptions for dividend rates paid by LBB on an agreed outbound claim of €65m and the release to the House Estate of ring-fenced cash held by LBIE.
- The range of recovery estimates reflects the current uncertainty regarding future distribution rates.
- No recoveries are included from LBHI2 and LBL. The estimated recoveries principally relate to LBSF and LBF.

Creditors

Affiliate creditors comprise both settled and unresolved relationships, with an indicative range of outcomes as summarised below.

Inbound claims	Mar 14	
	Low £bn	High £bn
Unresolved relationships		
Various	(0.18)	(0.12)
Settled relationships		
LBB	-	-
LBJ	(0.29)	(0.29)
Storm	(0.16)	(0.16)
LBHK	(0.15)	(0.15)
LB Lux	(0.06)	(0.06)
LBEF	(0.06)	(0.06)
LBS	(0.05)	(0.05)
LBHI and its US affiliates	(0.06)	(0.06)
Others	(0.25)	(0.25)
Total claims	(1.26)	(1.20)

Expected aggregate inbound claims are £0.86bn and £0.17bn lower, on a Low and High case basis, respectively, than previously estimated, with the most significant improvements summarised below.

Affiliate	Progress in the period	Mar 14	
		Low £bn	High £bn
LBB	Settlement executed	0.58	-
Storm	Settlement executed	0.10	0.07
LBHK	Supplemental settlement	0.05	0.03
Others		0.13	0.07
Improvement		0.86	0.17

Debtor and creditor relationships progress

Unresolved relationships

Various

Inbound claims from 18 Affiliates remain pending. LBIE continues to engage with these Affiliates with the objective of resolving their claims in a timely manner.

The Subordinated Debt and LBIE's potential contribution claims against its Shareholders are discussed separately below and are not included in the estimates in the tables above.

Settled relationships

LBB

Efforts continued to negotiate a settlement with LBB, with material progress achieved in the period. There has been considerable engagement between LBIE and LBB to finalise their respective positions and to achieve a compromise of the litigation surrounding the Client Money position. LBB has further developed its own insolvency plan to finalise matters within its estate and this has provided a platform to conclude a settlement. To this end, agreement has been reached, containing resolution of the following key issues:

- admittance of a net LBIE House claim against LBB of €65m;
- withdrawal of LBB's inbound counter-claim of £0.58bn and certain other claims; and
- admittance of an ordinary unsecured claim against LBB of €0.40bn and a further €0.40bn subordinated claim, both derived from LBIE's Client Money claim against LBB.

The settlement became effective on 14 March 2014 and the proceedings in the German Supreme Court relating to LBB's counter-claim have now been withdrawn by mutual consent.

In due course, LBIE will sign a document in support of LBB's plan which will enable LBIE to receive cash distributions on its claim and the recovery estimates (both in this section and Section 8) assume LBB's insolvency plan is finalised in its current form.

LBHK

The final Hong Kong court hearing regarding third party security interests was held in January 2014. The court ruled that LBHK should distribute to LBIE certain House and Client Assets previously held subject to extended liens.

Asset exchanges between LBIE and LBHK for assets not subject to competing claims began in the period and were completed shortly after the reporting period end. Asset returns which remain subject to competing claims (c.£40m) continue to be worked upon by both sides to resolve.

The majority of the House securities that have been returned were subject to forward sale contracts to remove market risk.

Significant engagement has taken place in the period to close out all other remaining issues with LBHK. This resulted in a supplemental settlement deed being executed which has finalised inbound claims for LBHK entities at £0.15bn.

LBF

There has been only limited progress to finalise outstanding matters in this relationship during the period.

Discussions have recently resumed (but so far inconclusively) regarding LBIE's assertion that it has deferred consideration due from LBF under the settlement agreement.

MCF

A first dividend from MCF of £0.10bn was received by LBIE in November 2013. LBIE is liaising with MCF regarding the timing and quantum of further recoveries, but the estimated future recoveries have increased significantly, reflecting a more optimistic outcome.

LBJ

Remaining matters have advanced considerably with 'catch up' dividends being paid to LBJ during the period and final LBIE recoveries from LBJ being received. No material issues remain.

Storm

Settlement negotiations have recently been concluded, resulting in an inbound claim of £0.16bn being agreed. A settlement deed was executed on 17 March 2014 after considerable negotiation as the parties sought to close out a number of complexities created by the absence of any governing documentation between the parties.

LB Lux

A supplemental settlement agreement was executed in October 2013. As a result, LBIE has admitted an inbound LB Lux claim for £0.06bn and paid 'catch up' dividends to LB Lux in the period.

LBIE's principal recoveries from LB Lux are derived from LBIE's own earlier settlement with LBHI. LBIE continues to work with the LB Lux liquidators and LBHI to maximise the value that will accrue to LBIE from the Luxembourg estate under this separate settlement. An initial £0.15bn was received by LBIE on 25 March 2014.

LBEF

The process for cancellation of unfunded LBEF warrants within LBIE's control is proving complex, although completion is anticipated later this year.

LBS

Final resolution of the LBS inbound claim, agreed in outline under the previous settlement agreement, has been further delayed, but is expected to be finalised shortly.

Others

Dividends of £0.05bn were received by LBIE during the period from the US affiliates of LBHI. A further £0.01bn was recovered from other Affiliates.

LBIE continues to liaise with LBI over a limited number of post-completion matters. A number of disputed client accounts have been resolved in the period, with transfers of funds between LBI and LBIE.

In addition to the above, a further 15 Affiliate claims have been resolved in the period, including 2 Australian Affiliates reducing their inbound claims from £0.05bn to £0.02bn and agreeing a small outbound claim.

Affiliate securities and cash ring-fencing

Assets held in the House and Trust Estates, which are still subject to Affiliate claims at 14 March 2014, have continued to reduce in the period following the resolution of Extended Liens.

A summary of these remaining assets and expected outcome is set out as follows.

	Securities £bn	Cash £bn	Total £bn
Reported as at 14 September 2013	0.46	0.69	1.15
Sales, redemptions and derived income ¹	(0.07)	0.12	0.05
Revaluations/other ²	(0.05)	(0.02)	(0.07)
Returns to Affiliates ³	-	(0.19)	(0.19)
Ring-fencing releases to House ⁴	(0.01)	(0.01)	(0.02)
Ring-fenced at 14 March 2014	0.33	0.59	0.92

1. Receipts comprise the proceeds of sale, redemption or related derived income of securities segregated for Affiliates of £0.09bn (principally Storm and LBF), and transfers from House of £0.03bn (principally relating to LBHI and LBF) and clients of Affiliates.
2. Revaluations include re-translation of non-sterling cash balances.
3. Principally returns to Storm, LBHK and LB Lux.
4. Releases following resolution by settlement agreements.

The remaining ring-fenced securities and cash are summarised below.

	Securities £bn	Cash £bn	Total £bn
Assets to be returned			
LBFI ¹	0.20	0.30	0.50
LBHK ²	0.06	0.03	0.09
Storm	0.01	0.01	0.02
	0.27	0.34	0.61
Assets to be retained by LBIE³			
LBB-related	-	0.12	0.12
LBFI-related	-	0.02	0.02
	-	0.14	0.14
Assets pending resolution	0.06	0.11	0.17
Assets at 14 March 2014	0.33	0.59	0.92

1. LBFI's assets will not be returned until its dispute with LBIE is resolved.
2. LBHK returns have occurred post-period end as part of the asset exchanges noted above.
3. The indicative financial outcome on page 8 includes this recovery in both the Low and High case scenarios.

The remaining ring-fenced assets are currently held in the Administration as detailed below.

	Securities £bn	Cash £bn	Total £bn
House depot – securities held subject to Affiliate disputes	0.06	-	0.06
Client depot – segregated for Affiliates ¹	0.27	-	0.27
Post-Administration Client Money – segregated Affiliate funds ²	-	0.59	0.59
Assets at 14 March 2014	0.33	0.59	0.92

1. To comply with FCA Client Assets sourcebook ('CASS') requirements.
2. Funds principally held in US dollars which will be returned to House or to the relevant Affiliates, following resolution of disputes, legal proceedings or conditions in settlement agreements being satisfied.

Litigation

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

Subordinated Debt and contribution claims against Shareholders

There has been considerable activity concerning the Subordinated Debt and LBIE's potential contribution claims against its Shareholders during the period. Many relevant issues were included in the Waterfall Application to the UK High Court which was heard in November 2013. A summary of conclusions was issued on 21 February 2014 and a full judgment on 14 March 2014.

The judgment is supportive of the position adopted by the Administrators on behalf of LBIE's unsecured creditors, with the following key conclusions:

- Subordinated Debt is subordinate to provable, Post-Administration Interest and non-provable claims of other creditors; and
- the obligation of Shareholders to contribute under section 74(1) of the Insolvency Act extends not only to provide for proved debts but also for Post-Administration Interest on those debts and non-provable liabilities.

The LBIE website includes a copy of the full judgment and other background material on the Waterfall Application.

LBIE is continuing to work through the consequences of the judgment and how resolution may be reached with LBIE's Shareholders. Considerable complexities remain to be navigated and permission to appeal in respect of some or all aspects of the judgment is expected to be sought.

In the period, LBIE received notification that the economic interest in LBHI2 has changed in light of its participation in a joint venture arrangement with other parties.

The Administrators have engaged with both Shareholders to seek to agree the quantum of their claims, without prejudice to their standing, and this work remains ongoing.

LBIE continues to maintain that the claim submitted by LBL is significantly overstated and is not expected to exceed £0.10bn.

The Administrators have further considered the scope and potential value of their contingent claims against the Shareholders. Clarity in some areas has been brought by the recent judgment but uncertainties still remain in several key areas which will affect both the quantum of the claims and their realisable value.

Lehman Brothers Pension Scheme deficit

As previously reported, LBIE is 1 of 6 Affiliates that the Pensions Regulator's Determinations Panel decided should receive an FSD, in connection with the Lehman Brothers Pension Scheme deficit.

Following the UK Supreme Court judgment in July 2013, which decided that a liability derived from any FSD issued by the Pensions Regulator should be treated as a provable unsecured claim in the Administration, the stay which had been in force for the Upper Tribunal proceedings came to an end. The Upper Tribunal has the role of deciding whether an FSD should be made, and against which entities, in respect of the Lehman Brothers Pension Scheme. The decision of the Determinations Panel is subject to a re-hearing by the Upper Tribunal.

In accordance with directions from the Upper Tribunal, written claims have been produced by the Pensions Regulator and the Lehman Brothers Pension Scheme trustees. The Upper Tribunal has also issued a timetable for the FSD targets, including LBIE, to file their written replies and has set a date in February 2015 for a 15-day substantive hearing. The Upper Tribunal is expected to issue further directions in July 2014.

LBIE participated, with 13 other Affiliates, in a UK High Court application relating to the maximum quantum of a contribution notice if this were to be issued by the Pensions Regulator in the event of non-compliance with an FSD. The UK High Court held that the aggregate liability under contribution notices issued to more than 1 target company could exceed the amount of £0.12bn claimed as a statutory debt due from the Lehman Brothers Pension Scheme employer, LBL. LBIE is continuing to hold a reserve for £0.12bn in respect of any liability that may arise in connection with an FSD.

Section 6:

House Estate – non-Affiliates

Section 6.1:

Claims agreement

Introduction

There has been significant progress made in the period, resulting in non-Affiliate claims totalling £1.43bn being admitted/agreed (£9.84bn to date excluding SCSO and CME claims). This has been driven by the following factors:

- increased creditor engagement tracking the rising rate of distributions; and
- increased impetus created by the rejection/partial rejection of claims coupled with an emphasis on bilateral negotiations.

200 claims made erroneously against LBIE were consensually withdrawn in the period and a further 42 claims were responded to with full rejection notices which were not subject to appeal. To date, 531 claims have been withdrawn or fully rejected with a Proof of Debt value of £0.91bn.

A review of US withholding tax issues caused a delay in payment of the third interim dividend on a small number of claims (£0.06bn) and a postponement of payment to a small number of others (£0.09bn) pending greater clarification on how the Administrators are able to discharge their US withholding tax responsibilities. This work is ongoing and this issue may reduce or delay future interim dividends to the affected small number of creditors.

Third interim dividends and monthly 'catch up' dividends

On 9 October 2013, creditors were formally notified of the 31 October 2013 deadline for admission of claims for inclusion in the third interim distribution. As required by the Insolvency Rules, a notice of declaration of a dividend was sent on 21 November 2013 to all creditors that had proved their debt. For all claims yet to be admitted, the Administrators made a reserve of £7.60bn in determining the third interim dividend rate of 23.7p/£1 (cumulative dividend rate of 92.2p/£1).

On 29 November 2013, the third interim distribution (£1.85bn) was paid to 1,217 unsecured non-Affiliate creditors. Monthly 'catch up' dividends were also paid in the period, as further claims were admitted. In total, £0.69bn of 'catch up' interim dividends was paid to non-Affiliate creditors in the period (cumulative dividends to date of £8.04bn).

Fourth and future interim distributions

On 28 February 2014, the Administrators notified creditors of their intention to pay a fourth interim distribution on or around 30 April 2014, with a cut-off date for qualifying for the distribution of 28 March 2014.

The rate of the proposed fourth interim dividend is 7.8p/£1, which will allow the Administrators to reach the milestone of a 100p/£1 cumulative dividend.

As explained elsewhere in this report, further distributions can only be made when some of the issues concerning creditors' rights to the surplus beyond 100p/£1 are resolved.

Appendix C includes a timetable for future 'catch up' dividends, including associated deadlines for the execution of transfer notices.

Indicative outcome

As at 14 March 2014, the estimated range of values for LBIE's liabilities is shown below (excluding claims from Affiliates).

	Admitted /agreed to date ¹ £bn	Pending ²		Indicative outcome ³	
		Low ⁴ £bn	High ⁵ £bn	Low £bn	High £bn
Unsecured creditors					
Where Proofs of Debt have been filed					
Street Creditors	(6.16)	(2.35)	(1.15)	(8.51)	(7.31)
Client Assets claimants ⁶	(3.65)	(0.77)	(0.45)	(4.42)	(4.10)
Other third party creditors	(0.03)	(0.15)	(0.14)	(0.18)	(0.17)
Total non-Affiliate creditors	(9.84)	(3.27)	(1.74)	(13.11)	(11.58)
SCSO settled claims	(0.03)	-	-	(0.03)	(0.03)
Other reserves ⁷	-	(0.05)	-	(0.05)	-
Total	(9.87)	(3.32)	(1.74)	(13.19)	(11.61)

1. Admitted/agreed to date includes claims agreed by Claims Determination Deeds and admittance letters where in certain cases legal challenge has been initiated by creditors on the balance of their Proof of Debt. The balance is included as pending claims.
2. Proofs of Debt relating to pending claims total £3.07bn.
3. The indicative outcome includes the total value of the claims admitted to date and the Low/High case value of pending claims.
4. The Low case outcome assumes the aggregate of the higher of the values of (a) filed Proofs of Debt and (b) LBIE's assessment of the pending claims, combined with certain specific adjustments.
5. The High case outcome assumes:
 - (a) claims below a £6m Proof of Debt value will be agreed at £0.41bn in aggregate based on a high level analysis. It assumes CME is assigned and a 50% reduction in the excess of the counterparty's Proof of Debt value over LBIE's value. This population comprises 634 claims with a total Proof of Debt value of £0.35bn together with contingent and other claims which have a nil Proof of Debt value.
 - (b) 100 separate pending claims with individual Proof of Debt values in excess of £6m (£2.72bn in aggregate) have been subject to a detailed review with:
 - (i) specific assumptions made on 90 claims not subject to litigation, leading to an estimated outcome of £0.95bn compared to a total Proof of Debt value of £1.91bn; and
 - (ii) 10 claims subject to litigation, including damages or compensation claims, reserved at £0.38bn on an overall basis compared to a total Proof of Debt value of £0.81bn. This is based on a specific assessment or an assumed average settlement rate of 25% of the Proof of Debt value for certain claims.
6. Client Assets claimants include pending unsecured claims arising from Client Assets shortfalls.
7. Reserve for potential LBI-related unsecured and trust claims of £0.04bn and £0.01bn of other claims reserves.

Claims agreement: status as at 14 March 2014

In order to facilitate a more straightforward comparison to the data provided within the Surplus Entitlement Proposal, the claims status summary below now excludes 860 claims settled via the SCSO and certain claims with CME, which were included in previous reports.

Unsecured claimants	No offers made			Offers made not agreed			Admitted/ agreed claims ^{2,3}			In litigation ⁴		Total		
	No. of PODs	Proof of Debt £bn	LBIE view ¹ £bn	No. of offers	Proof of Debt £bn	LBIE offer £bn	No. of deeds	Proof of Debt £bn	Agreed claim £bn	No.	Proof of Debt £bn	No. of PODs/ deeds	Proof of Debt £bn	LBIE view/ offer/ agreed £bn
Where Proofs of Debt have been filed														
Street Creditors	232	(0.90)	(0.11)	259	(0.89)	(0.40)	1,054	(8.64)	(6.16)	9	(0.52)	1,554	(10.95)	(6.67)
Client Assets claimants	74	(0.14)	(0.01)	101	(0.31)	(0.33)	356	(4.75)	(3.65)	3	(0.17)	534	(5.37)	(3.99)
Other third party creditors ⁵	44	(0.02)	(0.01)	11	-	-	66	(0.03)	(0.03)	1	(0.12)	122	(0.17)	(0.04)
Total non-Affiliate creditors	350	(1.06)	(0.13)	371	(1.20)	(0.73)	1,476	(13.42)	(9.84)	13	(0.81)	2,210	(16.49)	(10.70)
Client Assets claimant shortfalls reserve	-	-	(0.02)	-	-	-	-	-	-	-	-	-	-	(0.02)
Total	350	(1.06)	(0.15)	371	(1.20)	(0.73)	1,476	(13.42)	(9.84)	13	(0.81)	2,210	(16.49)	(10.72)

1. There is an additional £0.04bn of potential CME, not in the LBIE view, that may result in future assignments to the unsecured claim pool.
2. The admitted population excludes 30 creditors that also have an unassigned/retained CME (£0.05bn aggregate CME) and 860 creditors (£0.03bn aggregate value) that have accepted the SCSO. It includes 7 agreed claims where CME has yet to be finalised (£0.03bn aggregate value).
3. \$1.25bn of non-Affiliate Client Money claims have been waived or assigned to LBIE's nominee in exchange for admission as an unsecured claim.
4. Claims 'in litigation' were previously reported in 'no offers made', except for a Client Assets claimant (Proof of Debt of £0.08bn) previously reported in 'offers made not agreed'. The third party claim relates to the Lehman Brothers Pension Scheme deficit. An unsecured claim of £0.10bn from BarCap is also included which represents the difference between BarCap's Proof of Debt value and an indemnity for \$0.78bn provided by LBI in respect of this claim.
5. Includes 33 admitted preferential creditor claims (totalling <£1m) paid in full relating to certain former branch employees.

The table below summarises the key improvements in outcome as compared to 14 September 2013.

Movements in the period	Indicative outcome		
	Proof of Debt £bn	Low £bn	High £bn
Unsecured creditors as at September 2013 ¹	(17.38)	(14.64)	(12.14)
Adjustments			
New claims submitted	(0.08)	(0.02)	(0.01)
Rejections/withdrawals	0.66	0.45	0.11
Proof of Debt value reduced by claimant	0.30	0.29	0.07
Admitted claims and updated reserves ²	(0.05)	0.43	0.31
Omitted SCSO and CME claims	0.06	0.05	0.05
Potential claims – no Proof of Debt filed	-	0.25	-
	0.89	1.45	0.53
Unsecured creditors as at March 2014¹	(16.49)	(13.19)	(11.61)

1. Admitted claims totalled £8.46bn at September 2013 and £9.84bn at March 2014, the latter excluding SCSO and CME claims.
2. The High and Low case movements in LBIE's reserves reflect the application of the assumptions set out on page 16.

Progress

Claims agreement

The Administrators have agreed/admitted 1,476 claims against the House Estate totalling £9.84bn, £3.58bn less than the associated submitted Proof of Debt values.

371 offers totalling £0.73bn have been made to, but not yet accepted by, claimants. The principal reason for non-acceptance is differences in valuation methodology/approach.

350 creditors have submitted Proofs of Debt totalling £1.06bn in respect of which, due to specific legal, commercial and/or valuation issues, LBIE has not made offers. These include 19 claims with Proofs of Debt totalling £0.18bn which relate to damages.

Street Creditors

Progress has continued in the period across both the bilateral and Consensual Approach claims agreement process populations. There has been increasing focus on the bilateral agreement process with 222 claims currently subject to it. In particular:

- 157 Street claims have been transferred to the bilateral process where either an offer made under the Consensual Approach was rejected by the claimant or where claimants were previously considered to be debtors;
- 142 claims have had no bilateral offer made to date. Of these, further information has been received from 80 claimants and is subject to review. Information is still awaited from the remaining 62 claimants;
- 136 offers under the bilateral process were issued in the period for £0.79bn (Proofs of Debt of £1.39bn); and
- 159 claims (totalling £0.90bn), including claims with a CME, were admitted/agreed under either the bilateral process or Consensual Approach, resulting in a release of reserves totalling £0.51bn.

Street Creditors that are yet to receive offers, besides damages claims, include 22 claims (Proofs of Debt of £0.10bn) viewed by LBIE as debtors. In these instances, LBIE is pursuing the monies it considers due to it and/or is requesting evidence from counterparties in support of their claims.

Client Assets claimants

In the period, 56 offers totalling £0.16bn were made to Client Assets claimants, with 93 claims totalling £0.52bn, including those with CME, being admitted/agreed.

The LBI settlement in mid-2013 has continued to allow progress to be made in the period to resolve outstanding contingent shortfall claims, with reserve reductions on a Low and High case of £0.16bn and £0.04bn, respectively, as shown below.

	Low £bn	High £bn
Reported as at 14 September 2013	(0.24)	(0.08)
Shortfalls admitted in the period ¹	0.04	0.04
Reduced provisions following LBI settlement ²	0.02	-
Impact of resolution of Over-Claims ³	0.10	-
Net reduction in the period	0.16	0.04
Client Assets claimant shortfalls at 14 March 2014	(0.08)	(0.04)
Reserved within unsecured creditors		
Offers made not agreed claims	(0.02)	(0.02)
No offers made claims reserve	(0.02)	(0.02)
LBI Over-Claims in other reserves	(0.04)	-
Client Assets claimant shortfalls at 14 March 2014	(0.08)	(0.04)

1. Shortfall claims admitted in the period are included as part of Client Assets claimants' unsecured claims.
2. Reflects a 100% 'catch up' distribution in the period to Omnibus Trust beneficiaries eliminating potential shortfalls.
3. Withdrawals of Over-Claims principally from agreements reached as part of the Consensual Proposal.

£0.04bn of the remaining potential Client Assets shortfalls relates to assets within LBIE's control. The remainder relates to potential shortfalls in the Omnibus Trust for Non-Consenting beneficiaries, who have not compromised their rights to a shortfall claim with respect to the Omnibus Trust. LBIE believes the actual asset shortfalls in due course will be a small proportion of the claimed amount.

The focus in the next 6 months will be to agree and admit the remaining Client Assets shortfall claims or to agree the withdrawal of Proofs of Debt where Client Assets have been returned in full.

Other third party creditors

These claims relate to non-financial trading creditors and former overseas branch employees.

The remaining 44 other third party creditor claims where no offer has been made typically relate to offers being drafted or where further information is required in order to agree a claim, but there is a lack of engagement by claimants. Absent a claimant providing substantive evidence in support of its claim, it is likely that the Administrators will seek to issue partial admittance/rejection letters, based on the documentary evidence available, for such remaining claims in the next 6 months.

The Lehman Brothers Pension Scheme deficit Proof of Debt of £0.12bn remains reserved as an unsecured claim, in full, in both the High and Low case scenarios pending the decision of the Upper Tribunal, as discussed in Section 5.

Outstanding claims and reserving

For all compliant Proofs of Debt received by the Administrators and where the claim has not been admitted, the Administrators continue to make an appropriate reserve, unless the claim has been formally rejected and the rejection appeal period has passed. Reserves are also made for certain other contingencies.

The Administrators caution against creditors assuming that the correlation between actual claims admittance values and their associated original Proof of Debt amount will equally apply to claims that have not yet been admitted.

Withdrawals, rejections and litigation

Claims 'in litigation' currently subject to UK or overseas based legal proceedings are summarised below.

Type of claim ¹	Jurisdiction	No.	Proof of Debt £bn
Damages/compensation ²	UK	4	(0.40)
Pension	UK	1	(0.12)
LB/BarCap ³	US	1	(0.10)
Debtor recovery	US/Germany	3	(0.11)
Other	UK	4	(0.08)
Total		13	(0.81)

- Of the 13 litigation claims, 7 arise from appeals to rejections of claims by LBIE.
- Alleged fraudulent misrepresentation, negligent/false misstatements, indemnification and other issues.
- See note 4 to the table on page 17.

The focus on seeking consensual withdrawals of invalid claims or, if necessary, formally rejecting claims has increased. Over the past 6 months, 200 claims (Proofs of Debt totalling £0.48bn) were withdrawn. Accordingly, as at 14 March 2014, a total of 364 claims had been withdrawn (Proofs of Debt totalling £0.69bn).

In addition, 42 full rejection notices (Proofs of Debt totalling £0.18bn) were issued in the period, with no rejection appeal being made, to claimants that had been unresponsive to withdrawal requests or that had failed to supply requested supporting evidence. Consequently, as at 14 March 2014, a total of 167 claims (Proofs of Debt totalling £0.22bn) had been rejected and the related rejection appeal period had passed with no appeal being made.

During the period, LBIE began issuing partial admittance/rejection letters in circumstances where full rejection was not appropriate. Over the past 6 months, 4 such letters (Proofs of Debt rejected totalling £0.08bn) were issued, with 1 subject to an appeal as at 14 March 2014.

6 creditors with Proofs of Debt totalling £0.25bn have appealed the Administrators' rejection of their claims to the UK High Court in the period, resulting in a total of 7 ongoing appeals relating to Proofs of Debt totalling £0.37bn. This includes 3 damages-related claims. Court proceedings are ongoing but may be subject to lengthy timelines for resolution if subjected to appeal.

Other ongoing litigation includes debts being pursued against 2 Client Assets claimants that are subject to litigation in Germany and a single Street claimant that is subject to litigation in the US, each of which had submitted Proofs of Debt against LBIE.

The claims process to finalise all remaining unresolved claims may ultimately require further court adjudication where the remaining unresolved parties cannot negotiate mutually agreeable resolutions.

Section 6.2:

House receivables

Introduction

In this section information on all outstanding receivables (other than Affiliates) has been consolidated, including Client Assets claimant debtors previously disclosed in 'Other Client Assets'.

Good progress has been made in resolving the large number of smaller Street counterparty balances. Larger balances have received proportionate attention and, with the statutory limitation deadline for initiating recovery action approaching, litigation strategies have been developed for a number of cases.

Client Assets claimant debtor recoveries in the period have exceeded expectations as a result of progress made from distributions to beneficiaries from the Omnibus Trust.

Progress

Recoveries from House third party and Client Assets claimant debtors, together with their respective indicative future recoveries are shown below.

	Indicative future recoveries	
	Low £bn	High £bn
Reported as at 14 September 2013	1.78	3.08
In the period		
Recoveries	(1.69)	(1.69)
Revisions ¹	0.55	0.32
Debtors at 14 March 2014	0.64	1.71
Comprising		
House third party debtors	0.43	1.37
Client Assets claimants	0.19	0.31
Other receivables ²	0.02	0.03
Debtors at 14 March 2014	0.64	1.71

1. Revisions in the period relate to updated estimates for indicative future recoveries since September 2013.
2. Other receivables relate to prospective tax recoveries.

Significant progress was made in the period as the Administrators continued to recover and negotiate debts owed to LBIE. A total of £1.69bn has been recovered from these counterparties in the period and total indicative future recoveries of £0.64bn and £1.71bn remain in the Low and High cases, respectively.

The collection strategy has concentrated on those counterparties with the majority of the remaining value. This includes establishing detailed escalation plans for a number of the remaining debtor groups to progress them towards settlement, or, where necessary, litigation. The Administrators expect a significant majority of the low value counterparties to be resolved over the next 6 months, with debts being collected where possible.

High case indicative future recoveries of £1.37bn relating to House third party debtors are significantly reliant on realisations from the AGR litigation and the LBIE Seoul Branch liquidation.

Future recoveries attributable to Client Assets claimants (much reduced after substantial collections in the current and previous periods) relate to a more even spread of recoveries across the remaining population. Amounts due from Client Assets claimants in excess of any collateral held by LBIE are dealt with at the end of this section.

House third party debtors

Debtors within the House Estate are set out below.

			Mid-market LBIE value £bn	Rec'd to date £bn	Indicative future recoveries	
	Cpty No.	Group No.			Low £bn	High £bn
Street counterparties						
Completed	1,382	879	6.96	5.54	0.01	0.01
Not completed ¹						
AGR	1	1	0.84	-	-	0.55
LBIE Seoul Branch	3	3	0.23	-	0.16	0.19
Other recoveries:						
Over £1m	50	27	0.94	0.26	0.17	0.40
Under £1m	316	254	0.89	0.42	-	0.01
Not completed	370	285	2.90	0.68	0.33	1.15
Total Street	1,752	1,164	9.86	6.22	0.34	1.16
Exchanges ¹	37	19	1.65	1.45	0.09	0.21
Total	1,789	1,183	11.51	7.67	0.43	1.37

1. During the period 2 counterparties were reallocated from Street 'not completed' to 'Exchanges', resulting in a reallocation of £0.20bn cash.

At 14 March 2014, £5.54bn had been recovered from completed Street counterparties and £0.68bn received on account where final settlement negotiations or litigation is ongoing. In total, £0.09bn was recovered from House third party debtors during the reporting period.

Significant activity has resulted in closing out many incomplete Street debtors reducing those outstanding from over 680 in the last report to 370 counterparties now.

The Exchanges population includes 9 completed groups, 8 of which have settled in the period with total Exchange recoveries of less than £10m.

Completed Street counterparties

Total recoveries from completed Street counterparties, together with the movements since the previous progress report, are summarised below.

	Cpty No.	Group No.	Mid- market LBIE value £bn	Rec'd in the period ¹ £bn	Rec'd to date ¹ £bn
Total completed at 14 September 2013	1,052	657	6.61	-	5.40
New completions	313	222	0.34	0.07	0.10
Further recoveries from previously completed groups and other movements ²	17	-	0.01	0.01	0.04
Total completed at 14 March 2014	1,382	879	6.96	0.08	5.54

1. The amount received in the period represents cash collected since 15 September 2013. The amount received to date comprises the amount received since 15 September 2013 plus any cash collected previously on account (i.e. before the counterparties were classified as completed).
2. Other movements include the reallocation of cash balances to the appropriate counterparties, revisions to the counterparty composition of existing debtor groups and reclassifications.

During the last 6 months, a total of 222 debtor groups were completed. Of the groups that settled, highlights include:

- settlement with a US hedge fund realising cash receipts of c.£20m;
- partial completion of a complex group of special purpose vehicles, realising cash receipts of c.£20m;
- settlement with a large European bank producing a total recovery of c.£10m; and
- settlement with a European telecom operator producing a cash recovery of c.£10m.

The Administrators are mindful that the complete debtor population needs to be resolved as soon as possible given the impact of the Limitation Act 1980 later this year and have therefore sought to accelerate resolution of the remaining population of smaller debtors. This has resulted in a significant number of completions albeit with relatively small cash realisations.

The recovery rate (received to date/mid-market LBIE value) has deteriorated slightly, highlighting the more challenging counterparties that remain. The Administrators caution against using the mid-market LBIE value as the sole basis for assessing remaining House receivables.

Not completed Street counterparties

The majority of recoveries left to collect from the remaining population of 285 Street debtor groups are expected to be realised from 31 key debtor groups.

For a number of the remaining Street debtor groups which are yet to settle, significant and/or complex issues remain to be addressed and further progress is expected in the next period.

AGR

An oral argument was heard recently by the Special Referee assigned to rule on LBIE's motion to compel disclosure of certain documents withheld from discovery by AGR. The motion is still pending, and the ultimate determination of the motion, its impact on the completion of discovery and the timing of a trial in the matter remain uncertain. LBIE continues to devote considerable effort to meeting the requirements of other aspects of the discovery process which remain ongoing.

The indicative financial outcome High case scenario, set out on page 8 of this report, reflects the full recovery of £0.55bn from the litigation with AGR.

LBIE Seoul Branch

LBIE Seoul Branch commenced its solvent liquidation on 30 August 2013. Pursuant to Korean regulations, LBIE Seoul Branch was allowed to return client funds to LBIE from December 2013 onwards. Since then, a total of c.£20m has been returned to LBIE and the liquidators continue to work to expedite the return of the remaining client funds. The surplus funds will be repatriated to LBIE upon completion of the liquidation, the timing and quantum of which is dependent upon the resolution of local tax matters, claims settlement and regulatory compliance.

Other recoveries

There is considerable focus on the 27 debtor groups with expected recoveries of over £1m. Where there is likely economic benefit to the Administration, the Administrators are also continuing to progress the remaining population of debtors with anticipated recoveries of less than £1m individually and not exceeding c.£10m in total. These positions are being negotiated to settlement, whilst implementing escalation strategies and considering litigation where necessary.

A small number of other disputes remain in litigation across various jurisdictions and the Administrators have commenced further legal proceedings in the period for debts totalling £0.16bn. In addition, the Administrators have issued 3 letters before action in the period in anticipation of commencing legal proceedings to recover other debts. This has assisted in negotiating settlement with a number of debtor groups, reducing the number of groups in litigation or moving to litigation from 7 to 4. Certain of the counterparties have also submitted a Proof of Debt, which further complicates resolution.

The Administrators remain mindful that litigation can become protracted and costly, but if settlements cannot be reached with counterparties, legal proceedings will be commenced to recover amounts due where appropriate.

Exchanges

The Exchanges population continues to progress to completion, with increased indicative future recoveries expected from 2 of the 10 outstanding debtor groups.

Client Assets claimant debtors

A number of Client Assets claimants in the Trust Estate are also debtors of the House Estate. The Administrators have continued to progress the agreement and collection of debtor balances through the indebtedness determination deed programme and through the simplified letter process for smaller debtors. As a result, the estimated recoveries from Client Assets claimant debtors have improved by £0.32bn and £0.14bn in the Low and High case scenarios, respectively.

The increase in actual recoveries and the estimated future recoveries of Client Assets claimant indebtedness is shown below.

	Low £bn	High £bn
Target recoveries		
Debtor balances agreed to date ¹	2.00	2.00
Forecast future agreed balances ²	0.32	0.44
As at 14 March 2014	2.32	2.44
Previous estimate as at 14 September 2013	(2.00)	(2.30)
Increase in the period	0.32	0.14
Target recoveries as at 14 March 2014	2.32	2.44
Less: recoveries and set-offs to date		
Receipts on account (including appropriations of Client Assets and derived income) in prior periods	(0.30)	(0.30)
Receipts on account (including appropriations of Client Assets and derived income) in the current period	(1.60)	(1.60)
Assignments of pre-Administration Client Money	(0.19)	(0.19)
Client Assets claimant shortfalls agreed	(0.04)	(0.04)
Recoveries and set-offs to 14 March 2014	(2.13)	(2.13)
Estimated future House recoveries from Client Assets claimant debtors at 14 March 2014	0.19	0.31

1. Includes £0.03bn of realised gains on the US dollar to sterling hedge.

2. Includes estimates of unrealised gains on the US dollar to sterling hedge.

In the period, total recoveries of £1.60bn comprised appropriations of:

- £1.39bn from the Omnibus Trust distributions;
- £0.17bn of cash receipts; and
- £0.04bn of Client Assets.

The majority of the remaining Client Assets claimant debtors comprise Omnibus Trust Non-Consenting beneficiaries and ineligible consenting beneficiaries that are expected to settle once the US withholding tax situation is resolved with the IRS. This is expected to be materially resolved within the next 9 months.

Section 7: **Client Assets estate**

Section 7.1:

Omnibus Trust

Introduction

2 separate interim distributions were paid in the period, providing a cumulative gross interim distribution rate of 106% of total Best Claim value to consenting beneficiaries, which in turn facilitated collection of significant House debtor recoveries. An IRS closing agreement on the US withholding tax treatment in relation to the first interim distribution has now been agreed. Further agreements will be required on US withholding tax for second and subsequent distributions.

Progress

Claims

As previously reported, the total claims in the Omnibus Trust at Best Claim value as at 14 September 2013 comprised \$8.42bn of agreed claims value and \$0.25bn of claims value (representing 20 counterparties) relating to Non-Consenting beneficiaries.

In the period, a small claims offer by the House Estate of 100% of Best Claim value was made to Non-Consenting beneficiaries with a Best Claim value below \$1m, in return for assignment of the claims to the House. The offer was made to expedite progress and reduce the risk that the House would be exposed to extended costs and litigation from small beneficiaries. To date, 5 beneficiaries have accepted the offer resulting in a total payment of less than \$1m. In addition, 3 Non-Consenting beneficiaries with a total Best Claim value of \$0.12bn have also become consenting beneficiaries.

Of the remaining 12 unresolved Non-Consenting beneficiaries (\$0.14bn Best Claim value, \$0.27bn reserved value), 2 were agreed in principle shortly after the period end (\$0.13bn Best Claim value, \$0.25bn reserved value), 7 are involved in ongoing negotiations and 3 have claims for zero-valued securities.

Recoveries

Following reaching agreement with certain Non-Consenting beneficiaries, the majority of remaining liquid securities were realised in the period for \$0.19bn.

Securities reserved for Non-Consenting beneficiaries are valued at c.\$1m. In addition, a small number of mainly illiquid securities remain to be realised for which nominal further value is expected.

First interim distribution

A first gross distribution of \$7.81bn at 100% of Best Claim values of beneficiaries was paid on 26 September 2013. \$4.83bn was distributed to beneficiaries, net of appropriations for House debtors, reserves for US withholding tax purposes and other permitted deductions totalling \$2.98bn.

Second interim distribution and indicative estimated final outcome

On 2 December 2013, the Administrators confirmed their intention to make a second interim distribution under the Common Terms on 30 January 2014 at a gross value equal to 6% of the Best Claim value of beneficiaries.

The basis used for calculating the second distribution rate and the High case final outcome estimate is summarised below.

Omnibus Trust	Second interim distribution basis \$bn	High case final outcome \$bn
Recoveries		
Cash in hand ¹	9.44	9.47
Securities held	-	-
Future recoveries from LBI ²	-	0.04
	9.44	9.51
Less:		
General provision ³	(0.11)	-
Reserves for Non-Consenting beneficiaries ⁴	(0.39)	-
Bilateral settlement ⁵	(0.22)	(0.22)
	(0.72)	(0.22)
Available for consenting beneficiaries	8.72	9.29
Total of consenting beneficiaries' Best Claim values	(8.22)	(8.45)
Gross distribution as a % of claims	106%	109.9%

1. Cash in hand includes earlier distributions.
2. Future recoveries from LBI remain subject to final diligence and agreement.
3. The general provision was reduced due to further progress with HMRC regarding potential UK tax liabilities.
4. Reserves for Non-Consenting beneficiaries are in excess of Best Claim value and reflect a conservative view of the specific issues relating to each beneficiary.
5. A bilateral settlement was agreed with a counterparty resulting in the claim return being restricted to 100% of the agreed value.

The High case final outcome assumes Non-Consenting beneficiaries' claims are agreed at Best Claim values and no general provision is utilised relating to tax or other liabilities.

A 'catch up' first gross distribution of \$0.44bn was paid to 19 eligible consenting beneficiaries on 30 January 2014, who had been ineligible or Non-Consenting beneficiaries at the date of the first distribution.

In total, \$0.49bn was distributed to 240 eligible consenting beneficiaries on 30 January 2014, net of appropriations for House debtors, reserves for US withholding tax purposes and other permitted deductions totalling \$0.41bn.

The 'catch up' first distribution and concurrent second interim distribution were paid to eligible consenting beneficiaries on 30 January 2014 as set out below.

Distribution on 30 January 2014	Cpty No.	\$bn	\$bn
Gross first distribution 'catch up'	19		0.44
Gross second distribution	273	0.49	
Less: non-eligible consenting beneficiaries ¹	(33)	(0.03)	
Gross second distribution paid	240		0.46
Adjusted distribution to eligible consenting beneficiaries before deductions and appropriations	240		0.90
Less:			
US withholding tax reserve ²			(0.13)
Recovered by House Estate			
House debtor appropriations		(0.27)	
Assigned claims and fees recovered		(0.01)	
Total recoveries to House Estate			(0.28)
Net cash distribution to beneficiaries			0.49

1. Non-eligible consenting beneficiaries relate to counterparties with unresolved House debts or House claims.
2. Distributions were again subject to a 30% tax deposit reserve for US withholding tax purposes, unless the distribution was paid or attributable to a validly documented US person on a form W-9.

The final (third) distribution is only likely to be made after the US withholding tax treatment of distributions is finally agreed by the IRS, claims of all Non-Consenting beneficiaries are concluded and remaining reserves are settled.

Tax developments

US withholding tax

In order to facilitate a timely and substantial return of value to clients, and in lieu of a final determination, LBIE reserved up to 30% of the Best Claim value of each beneficiary, dependent upon tax status, for potential US withholding tax for the first and second distributions. In total, the IRS currently holds \$0.95bn in respect of these distributions.

LBIE, its withholding agent and the IRS have now reached agreement on LBIE's and its withholding agent's US federal income tax withholding and reporting obligations in respect of the first interim distribution. LBIE has signed the agreement and expects the document to be fully executed shortly.

LBIE now expects to be in a position to release back to beneficiaries some or all of the excess reserves made in respect of US withholding tax on the first distribution, net of the appropriate tax.

LBIE will continue to work with the IRS and its withholding agent in respect of additional guidance required on other subsequent distributions.

UK tax issues

LBIE is in the final stages of working with HMRC to agree the status of the Omnibus Trust for UK tax purposes. HMRC has agreed that no inheritance tax will arise on the trust as long as certain conditions are met by LBIE, which LBIE expects to meet. HMRC has also agreed that no capital gains tax liabilities will arise in respect of transactions entered into by the trust up to mid-December 2013. LBIE is in the process of agreeing the income tax position on income earned since LBIE received the funds from LBI. Accordingly, LBIE currently considers the risk of material UK tax liabilities arising to be low.

Section 7.2: Other Client Assets

Introduction

The resolution of outstanding key issues has accelerated in the period as a consequence of the earlier LBI settlement and the removal of associated uncertainties. As a result, the ultimate range of potential outcomes has continued to narrow.

Focus on the outstanding issues in the next period is expected to result in resolution of the majority of the remaining material Client Assets matters by the end of 2014. At that time, it is anticipated that any open issues will relate to litigation or non-responsive counterparties for low value assets.

Progress

Client Assets analysis

Movements in the client depot during the period (excluding Omnibus Trust and segregated Affiliate assets) are summarised below.

	£bn
Reported as at 14 September 2013	0.48
Returns to clients, redemptions and appropriations in the period	(0.34)
Revaluation, exchange rate and other adjustments ¹	0.03
Client Assets at 14 March 2014²	0.17

1. Relates to mark-to-market adjustments and security reconciliations.
2. Includes securities previously controlled by LBHK of £0.08bn now recovered by LBIE (valued and recovered as at 14 March 2014), remaining excess segregated Client Assets and is net of claims for Client Assets shortfalls.

Client Assets returns

In the period, 1,348 individual Client Assets holdings were returned and an additional 164 holdings were partially returned to counterparties, with a total value of £0.30bn. To date, a total of c.8,800 individual holdings have now been fully returned to counterparties representing a total value of c.£14.0bn.

In respect of resolving the LBI competing claims issue, in the period LBIE received assets with nominal value from LBI which have been, or will be, returned to clients in due course. Under the reciprocal arrangement, LBIE has to date transferred assets valued at c.£30m to LBI for onward distribution.

The exercise to agree allocations of Client Assets that are in partial shortfall amongst non-CRA counterparties were substantially concluded in the period. As a result, 220 adjusted entitlements have now been agreed with counterparties and have been incorporated into shortfall claims against the House Estate.

Excess segregated Client Assets

The ongoing identification of securities held in the client depot that had been over-segregated at the date of Administration has resulted in further transfers to the House Estate of £0.05bn in the period (£0.51bn to date).

Over-Claims and ring-fencing

For certain Client Assets, LBIE has received duplicate claims for the same security and until resolved or expunged, this prevents the affected Client Assets being returned. An analysis of continuing Over-Claims is set out below.

	£bn
Over-Claims at 14 September 2013	0.23
Over-Claims resolved or reconciled in the period	(0.16)
Total Over-Claims remaining at 14 March 2014	0.07
Comprising	
Over-Claims asserted for assets within LBIE's control	0.04
Over-Claims asserted for assets outside of LBIE's control	0.03
Total Over-Claims remaining at 14 March 2014	0.07

Remaining Over-Claims predominantly relate to entitlements connected to LBHK-linked securities. These issues are expected to be materially resolved in the next 6 months.

LBHK

Following resolution of the extended liens litigation in Hong Kong, as set out in Section 5, Client Assets held by LBHK on behalf of LBIE's clients were released to LBIE in mid-March 2014. A significant amount of preparatory work as regards the return of those assets to counterparties was done in the period. Accordingly, LBIE expects to commence the return of these Client Assets to counterparties shortly.

Where clients have claimed Client Assets from both LBHK and LBIE, the duplicate claim will need to be resolved before assets can be recovered.

Section 8:

Client Money estate

Introduction

There has been notable progress in advancing the resolution of the Client Money estate with the ongoing resolution of CME either by assignment to the House, which includes many material claimants, or by client waiver of CME. This has enabled the Administrators to bring forward plans for final resolution of the estate subject to finding a solution to the BarCap Client Money claim.

With the House unsecured creditor dividend rate shortly to reach 100p/£1 and following the recent LBB settlement, the Administrators are focused on ensuring:

- the remaining CME is settled expeditiously; and
- the duties and responsibilities of LBIE, as Client Money trustee, are properly fulfilled and completed, including the remittance of surplus funds to the House.

The Administrators set out in the table below a high-level analysis showing illustrative Low and High case outcomes for the net Client Money impact on the House Estate.

Pre-Administration Client Money estate	Low \$bn	High \$bn
Projected Client Money to distribute		
Funds held at 14 March 2014	1.29	1.29
LBB future recoveries ¹	0.39	0.48
LBHI future recoveries ²	0.25	0.25
Other recoveries	0.02	0.02
Projected Client Money to distribute³	1.95	2.04
Less: estimated funds to be paid to the UK High Court	(0.03)	(0.03)
Projected future distributions to LBIE's nominee (House Estate) (\$bn)	1.92	2.01

1. The Low and High case assume that LBB pays a total dividend of 70%/85% respectively on LBIE's €0.40bn (\$0.56bn) unsecured claim.
2. This represents dividends on LBIE's LBHI guarantee claim of \$1.01bn.
3. The illustration assumes that the Administrators will not be required to trace and recover assets from the House Estate for the benefit of the Client Money pool (see resolution of the Client Money estate on page 28).

Projected House impact of Client Money estate	Low £bn	High £bn
Projected House receipts from the Client Money estate	1.21	1.26
Less: future distributions by the House under the Client Money settlement offer	(0.04)	(0.04)
Estimated net future House recovery (£bn)	1.17	1.22

The Administrators expect the majority of further outstanding CME to be assigned to LBIE's nominee in satisfaction of indebtedness due to the House or in exchange for the admission of an unsecured claim, with only \$0.03bn remaining to be paid into the UK High Court for 'orphaned' type claims/obligations. Future estimated House third party debtor recoveries and unsecured creditors, included in the indicative financial outcome in Section 3, have been compiled on a consistent basis.

Progress

Pre-Administration Client Money

'Catch up' first interim Client Money distribution

In total, 7 Client Money creditors (including LBIE's nominee) received monthly 'catch up' interim distributions in the period at the rate of 23.2%. Total distributions of \$0.14bn have been paid to date.

Client Money settlement offer

There remain a number of issues still to be dealt with prior to submitting an application to the UK High Court to finally resolve the Client Money estate. Accordingly, the Administrators developed and recently presented a proposal to counterparties that had retained CME, to settle their remaining entitlements at 100% of their CME (plus, where applicable, a currency allowance) in exchange for an assignment of their CME to LBIE's nominee. The proposal was presented to all 55 such counterparties. As at 14 March 2014, the number of counterparties accepting the offer was 54, with discussions continuing with the remaining counterparty.

CM Determinations agreement

Significant progress has been made in engaging with counterparties with unresolved CME. The majority of counterparties continue to elect to take an unsecured claim and assign their CME to LBIE's nominee. CME has now been agreed and resolved for 76% (by number) of counterparties with CME and work has been completed on a further 11%, for which court directions are expected to be required.

CME population	Sep 13		Mar 14	
	Cpty No.	CME \$bn	Cpty No.	CME \$bn
Third parties	1,316	1.65	1,302	1.65
Affiliates	9	0.04	11	0.04
LBI/LBF ¹	2	2.81	2	2.81
Total	1,327	4.50	1,315	4.50
Comprising				
Resolved				
Resolved – assigned/waived ¹	765	3.38	948	4.10
Resolved – CME retained	44	0.09	55	0.09
	809	3.47	1,003	4.19
Outstanding				
In progress ²	438	0.49	148	0.24
Court directions required ³	41	0.01	140	0.03
Roadblocked ⁴	39	0.53	24	0.04
	518	1.03	312	0.31
Total	1,327	4.50	1,315	4.50

1. The LBI and LBF claims included in the table continue to be LBIE estimates, based on a review of accounting records only. A number of complex legal questions would need to be resolved before these claims could finally be determined, if that eventually needs to be done.
2. LBIE has engaged with this population, which includes a significant number of clients where options relating to the resolution of their CME are actively being explored.
3. This group includes counterparties with CME where LBIE has been unable to establish contact, counterparties who refuse to engage and counterparties who are dissolved. UK High Court approval of the Administrators' proposals concerning this group will be sought in due course but the work on these counterparties is now complete.
4. There remain a number of clients whose CME is contingent upon the outcome of matters which have not been resolved (e.g. depot breaks/litigation). Resolution depends on litigation or other issues outside of the Administrators' control.

LBI

BarCap has asserted that it acquired LBI's CME in accordance with the terms of a sale and purchase agreement entered into in September 2008. Discussions to resolve this issue resumed temporarily with BarCap and LBI in January 2014, but have now stalled. LBIE does not currently anticipate that this issue will be resolved before the related US-based litigation between LBI and BarCap is concluded.

Resolution of the Client Money estate

Previously, it was considered possible that there may be a need to carry out a Tracing and recovery exercise to augment the Client Money pool for the benefit of CME counterparties. The Administrators now consider that there is unlikely to be any good or economic reason, in the interests of Client Money beneficiaries, and in particular, given the asset position of the Client Money pool and limited claims against it (LBIE's nominee for assignments aside) in undertaking a Tracing exercise. Accordingly, the Administrators intend to make an application to the UK High Court for directions including:

- guidance on their options for calculation of the final payments to the counterparties referred to above, in order that reserves and payments to them or, as appropriate, into the UK High Court may be made;
- whether they are obliged to undertake a Tracing exercise;
- how to deal with CME of a small number of non-responsive, uncontactable or legally dissolved counterparties; and
- other formalities for the closure of the Client Money estate including a bar date for CME claims.

Recoveries

The pre-Administration Client Money pool at 14 March 2014 was \$1.29bn. This includes both recoveries and interest on funds held, including in the period:

- a balance of \$0.17bn previously held in the post-Administration Client Money account which was transferred to the pre-Administration Client Money account on 16 January 2014, following agreement with a single counterparty; and
- \$0.03bn of Client Money which was recovered from LBIE Seoul Branch on 3 March 2014.

Future recoveries will arise from:

LBB

A settlement agreement with LBB was signed on 14 March 2014 which dealt with all outstanding Client Money issues between LBIE and LBB. Under the terms of the agreement, 50% of LBIE's €0.81bn Client Money claim has been admitted as an unsecured claim, with the balance having subordinated status. The agreement requires LBIE to complete a number of formalities before receiving a 'catch up' dividend at the rate of 39.5% on its unsecured claim. This is expected to be completed in the coming months with further distributions being received in due course.

LBHI

LBIE has an agreed guarantee claim against LBHI to the extent that it is unable to recover all of the Client Money placed with LBB pre-Administration. The payment under the guarantee is conditional upon reaching definitive agreement with LBB. Following the settlement referred to above, dividends from LBHI of \$0.21bn were received after the period end. Further distributions are expected in due course.

Post-Administration Client Money recoveries and returns

Progress has continued in the period, with \$0.56bn, representing 90% of the post-Administration Client Money pool at 14 September 2013, either being returned to clients, or being transferred to the pre-Administration Client Money pool or to the House Estate.

The table below provides a breakdown of the post-Administration Client Money movements during the period.

	\$bn	\$bn
Balance as at 14 September 2013		0.62
Returns ¹	(0.56)	
Receipts	0.08	
Foreign exchange gain in the period	0.01	
Movement in the period		(0.47)
Balance as at 14 March 2014²		0.15

1. The funds have been distributed as follows: \$0.27bn has been returned to clients, \$0.17bn was transferred to the pre-Administration Client Money pool and \$0.12bn has been transferred to the House Estate following the resolution of issues.
2. The balance comprises \$0.13bn of client funds and \$0.02bn relating to House and segregated Affiliate funds.

Appendices

Appendix A:

Receipts and payments: cumulative and 6 months to 14 March 2014

House Estate receipts and payments: cumulative and 6 months to 14 March 2014

House Estate	Notes	Cumulative - 15 September 2008 to 14 September 2013 (GBP equivalent) £m	Period - 6 months to 14 March 2014 (GBP equivalent) £m	Cumulative - 15 September 2008 to 14 March 2014 (GBP equivalent) £m
Receipts				
Counterparties	1	8,705	1,813	10,518
Depot securities	2	8,734	367	9,101
Affiliate-related transfers from post-Administration Client Money	3	686	14	700
Post-Administration Client Money and collateral for onward distribution	4	436	71	507
Other income	5	1,051	129	1,180
Total receipts for the period/to date		19,612	2,394	22,006
Payments				
Dividends paid	6	(5,917)	(2,984)	(8,901)
Affiliate-related transfers to post-Administration Client Money	7	(1,323)	(27)	(1,350)
Affiliate settlements	8	(866)	(62)	(928)
Distribution of post-Administration Client Money and collateral	9	(436)	(74)	(510)
Administrators' remuneration	10	(714)	(82)	(796)
Payroll and employee costs	11	(472)	(52)	(524)
Legal costs	12	(295)	(16)	(311)
Building and occupancy costs	13	(237)	(11)	(248)
Other payments	14	(794)	(89)	(883)
Total payments for the period/to date		(11,054)	(3,397)	(14,451)
Net movement in the period/to date		8,558	(1,003)	7,555
Foreign exchange translation differences		(132) [^]	(6) [^]	(138) [^]
Total balances	15	8,426	(1,009)	7,417
Less: Funds held subject to potential third party claims	16	(509)	(488)	(997)
Total House Estate cash and bonds (see Section 3)		7,917[~]	(1,497)	6,420[#]

[^] At this stage in the Administration, material receipts and payments in foreign currencies are converted to sterling as soon as practicable after receipt. Where small currency sums are held for a short period or where currency collateral is held for a counterparty, small translation differences can arise.

[~] Balances held in foreign currencies at 14 September 2013 were €4m, \$1m and various currencies £5m (equivalent).

[#] Balances held in foreign currencies at 14 March 2014 were €6m, \$4m and various currencies £12m (equivalent).

Notes to House Estate receipts and payments account

General

Foreign currency transactions are reported in sterling at the rate prevailing on the relevant transaction date.

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 completed in accounts established and controlled by the Administrators.

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

1. Counterparties

Receipts in the period comprise:

- £1,357m of House debtor appropriations from the Omnibus Trust estate;
- £168m of distributions from debtor Affiliates;
- £88m of House debt appropriations of collateral received from clients, including £40m of collateral transferred from post-Administration Client Money and £48m shown as other income in prior periods (see note 5);
- £88m related to House third party debtors;
- £34m recovered through the termination of part of a hedge against US dollar exposure (as previously reported);
- £30m of House assignments from the Omnibus Trust estate;
- £26m of Client Assets claimant debtor appropriations; and
- £23m of Client Assets claimant debtor appropriations transferred from post-Administration Client Money.

The above amounts are offset by a net £1m reclassification in the period (£18m reclassification to depot securities (see note 2) net of £17m reclassified from other income (see note 5)).

2. Depot securities – sales and related income

Realisations of £367m (including £18m reclassified from counterparties) relate to the disposal or redemption of securities and derived income from depot holdings for the benefit of the House Estate or third parties.

3. Affiliate-related transfers from post-Administration Client Money

£14m of funds previously held in post-Administration Client Money, segregated for potential Affiliate claims, was transferred to the House Estate following settlement with Affiliates.

4. Post-Administration Client Money and collateral for onward distribution

Under certain client agreements, Client Money is transferred from the post-Administration Client Money account to LBIE's nominee. Under a separate agreement, funds are transferred from LBIE's nominee to the House account. The House makes a separate payment to the client to give value for its Client Money under the client agreements (see note 9). In addition, certain client collateral held in House was reclassified from other income in the period (see note 5).

5. Other income

Other income comprises:

- £72m of pre-Administration Client Money interim distributions received via LBIE's nominee;
- £54m retained from Client Assets returns as a cost contribution, including £42m from the Omnibus Trust estate;
- £31m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts;
- £25m of VAT repayments received from HMRC;
- £12m of bank and bond interest received;
- £8m of collateral pledged by clients; and
- £5m of other realisations.

The above amounts are offset by:

- £48m of collateral received from clients in prior periods that has been appropriated to the House Estate in the current period (see note 1);
- £17m under investigation in the prior period that has been reclassified as counterparties receipts in the current period; and
- £13m of collateral received from clients in prior periods that has been reclassified to post-Administration Client Money and collateral for onward distribution (see note 4).

6. Dividends paid

£2,984m of interim unsecured dividends were paid in the period.

7. Affiliate-related transfers to post-Administration Client Money

£27m of funds were transferred to the post-Administration segregated Affiliate accounts, relating to the disposal or redemption of securities and derived income received into the House account identified as belonging to Affiliates.

8. Affiliate settlements

The payments relate to Affiliate settlement and asset return agreements.

9. Distribution of post-Administration Client Money and collateral

This relates to returns to clients of collateral and funds under the Client Money return scheme (see note 4).

10. Administrators' remuneration and expenses

Payment deferral terms, as agreed with the Committee and referred to on page 42 of this report, account for differences between costs incurred and payments made in the period.

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

11. Payroll and employee costs

Payments relate to salary and employee-related benefits for UK-based employees and third party contractors. This includes costs incurred on behalf of Affiliates, which are recovered by LBIE and included as other income.

12. Legal costs

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

13. Building and occupancy costs

This relates to occupancy and infrastructure costs, primarily related to the Canary Wharf offices occupied by LBIE. This includes costs incurred on behalf of Affiliates, which are recovered by LBIE and included as other income.

14. Other payments

Other payments comprise:

- repayment of £35m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see note 5 on other income);
- £25m of counterparty settlements;
- £21m of VAT paid on invoices; and
- £8m of other sundry payments.

15. Investment profile

Current investment strategy

For short-term liquidity requirements, LBIE invests in short-dated money market deposits. For longer term requirements, investments are made in short-dated government securities.

Total balances

House Estate	Notes	GBP equivalent £m
Short-dated government bonds		7,062
Short-term deposits	1	149
Interest-bearing accounts		206
Total		7,417

1. Average rate of return for 6 months ending 14 March 2014: sterling 0.32% and US dollars 0.08%.

Cash management and investment policies

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

- security for Administration funds;
- liquidity as required by the Administration; and
- appropriate returns (positive yield net of fees).

The primary objective continues to be ensuring 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.

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 5 key criteria:

- be headquartered in a sovereign state where the average long-term ratings from S&P, Moody's and Fitch are in the top 4 available tiers (AAA to AA-);
- have a blended average long-term rating from S&P, Moody's and Fitch within the top 4 available tiers (AA- to A-);
- be a Prudential Regulation Authority approved counterparty;
- have a 5-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 with only those banks that meet strict criteria – currently only 2 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 quasi-government debt securities benefiting from an explicit, unconditional and irrevocable guarantee from the UK government.

The bond portfolio is managed on a day-to-day basis by an independent fund manager.

16. Funds held subject to potential third party claims

House Estate	£m
Reserve for unpaid dividends	941
Cash collateral from Client Assets claimant debtors	34
Ring-fenced for Trust Property claimants	22
Total	997

**Post-Administration Client Money receipts and payments:
cumulative and 6 months to 14 March 2014**

Post-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 September 2013 (USD equivalent) USD \$m	Period - 6 months to 14 March 2014 (USD equivalent) USD \$m	Cumulative - 15 September 2008 to 14 March 2014 (USD equivalent) USD \$m
Receipts				
Affiliate-related	1	415	158	573
Collateral received from clients		258	63	321
Affiliate-related transfers from the House	2	2,075	44	2,119
Redemptions, coupons, dividends and investment income	3	4,283	12	4,295
Funds received in error		113	1	114
Total receipts for the period/to date		7,144	278	7,422
Payments				
Affiliate settlements	4	(311)	(306)	(617)
Transfers to pre-Administration Client Money	5	-	(167)	(167)
Transfers to clients via LBIE's nominee	6	(571)	(138)	(709)
Transfers to clients direct	7	(1,901)	(114)	(2,015)
Other transfers to the House	8	(1,237)	(77)	(1,314)
Return of collateral received from clients	9	(258)	(65)	(323)
Affiliate-related transfers to the House	10	(1,066)	(23)	(1,089)
Return of funds received in error		(113)	(1)	(114)
Other		(7)	3	(4)
Total payments for the period/to date		(5,464)	(888)	(6,352)
Net movement in the period/to date		1,680	(610)	1,070
Foreign exchange translation differences		33 [^]	27 [^]	60 [^]
Total balances	11	1,713[~]	(583)	1,130[#]
Comprising				
Segregated Affiliate post-Administration Client Money balance		1,097	(113)	984
Other third party post-Administration Client Money balance		616	(470)	146
Total balances		1,713	(583)	1,130

[^] The translation differences set out above principally arise from translating other currencies into US dollars, for reporting purposes only.

[~] Balances held in currencies other than US dollars at 14 September 2013 were €329m, £57m and various currencies \$419m (equivalent).

[#] Balances held in currencies other than US dollars at 14 March 2014 were €256m, £10m and various currencies \$81m (equivalent). In the period, \$12m was transferred from 'Other third party post-Administration Client Money' to 'Segregated Affiliate post-Administration Client Money'.

Notes to post-Administration Client Money receipts and payments account

1. Affiliate-related

Amounts relating to the disposal or redemption of securities and to derived income received directly into the segregated Affiliate accounts.

2. Affiliate-related transfers from the House

Transfer of cash originally received in the House account, relating to the disposal or redemption of securities and to derived income identified as belonging to Affiliates.

3. Redemptions, coupons, dividends and investment income

Following investigation, \$62m of funds received in prior periods now determined to be collateral received from clients has been reclassified as such in the period.

4. Affiliate settlements

Return of funds to Affiliates under the terms of settlement agreements with those Affiliates.

5. Transfers to pre-Administration Client Money

Transfer of a balance held in the post-Administration Client Money account, which, following further investigation was identified as relating to the pre-Administration Client Money pool.

6. Transfers to clients via LBIE's nominee

Return of post-Administration Client Money via LBIE's nominee, where funds are transferred for onward distribution to clients from the House Estate. Certain returns are retained by the House in respect of fees payable, debtor appropriations and releases following a waiver of client rights in consideration for an unsecured claim into the House.

7. Transfers to clients direct

Return of post-Administration Client Money direct to clients including debtor appropriations to the House. Following investigation, \$15m of payments in prior periods now determined to be fees paid to the House has been reclassified as other transfers to the House in the period.

8. Other transfers to the House

Transfers relate to either funds determined not to be post-Administration Client Money following investigation, fees payable to the House, or releases following a waiver of client rights in consideration for an unsecured claim into the House.

9. Return of collateral received from clients

All returns in the period were appropriated by the House Estate in respect of debts owed by clients to the House, rather than paid to the clients.

10. Affiliate-related transfers to the House

Funds previously held subject to potential Affiliate claims were transferred to the House Estate following settlements with Affiliates.

11. Investment profile

Total balances

	USD equivalent \$m
Post-Administration Client Money	
Short-term deposits	1,000
Interest-bearing accounts	130
Total	1,130

Cash management and investment policies for client funds

The Client Money cash management policies for short-term deposits and interest-bearing accounts are based on those 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. Client monies can be placed on money market deposits for a maximum duration of 4 weeks.

**Pre-Administration Client Money receipts and payments:
cumulative and 6 months to 14 March 2014**

Pre-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 September 2013 (USD equivalent) USD \$m	Period - 6 months to 14 March 2014 (USD equivalent) USD \$m	Cumulative - 15 September 2008 to 14 March 2014 (USD equivalent) USD \$m
Receipts				
Client Money pool recoveries	1	1,216	209	1,425
Interest		6	1	7
Total receipts for the period/to date		1,222	210	1,432
Payments				
Client Money interim distribution	2	(21)	(116)	(137)
Legal costs		(10)	-	(10)
Total payments for the period/to date		(31)	(116)	(147)
Net movement in the period/to date		1,191	94	1,285
Foreign exchange translation differences		7 [^]	2 [^]	9 [^]
Total balances	3	1,198[~]	96	1,294[#]

[^] The translation differences principally arise from translating other currencies into US dollars, for reporting purposes only.

[~] Balances held in currencies other than US dollars at 14 September 2013 were €27m, £9m and various currencies \$11m (equivalent).

[#] Balances held in currencies other than US dollars at 14 March 2014 were £139m and various currencies \$1m (equivalent).

Notes to pre-Administration Client Money receipts and payments account

1. Client Money pool recoveries

Client Money recovered in the period principally relates to a transfer of certain funds held in the post-Administration Client Money account following further investigation.

2. Client Money interim distribution

A Client Money first interim 'catch up' distribution at a rate of 23.2% was paid in the period.

3. Investment profile

Pre-Administration Client Money	USD equivalent \$m
Short-term deposits	1,293
Interest-bearing accounts	1
Total	1,294

Omnibus Trust receipts and payments: cumulative and 6 months to 14 March 2014

Omnibus Trust	Notes	Cumulative - 15 September 2008 to 14 September 2013 (USD equivalent) USD \$m	Period - 6 months to 14 March 2014 (USD equivalent) USD \$m	Cumulative - 15 September 2008 to 14 March 2014 (USD equivalent) USD \$m
Receipts				
Sale of equity securities returned by LBI	1	3,828	149	3,977
Sale of fixed income securities returned by LBI	1	643	48	691
Funds received in error	2	34	6	40
Cash transferred from LBI		4,795	1	4,796
Interest		1	1	2
Total receipts		9,301	205	9,506
Payments				
Distributions to beneficiaries	3	-	(5,323)	(5,323)
House debtor appropriations	4	-	(2,184)	(2,184)
US withholding tax reserve	5	-	(950)	(950)
Fees recovered	4	-	(68)	(68)
House assigned claims	4	-	(48)	(48)
Return of funds received in error	2	(34)	(6)	(40)
Costs relating to disposal of securities		(1)	-	(1)
Total payments		(35)	(8,579)	(8,614)
Period end balance	6	9,266	(8,374)	892

Notes to Omnibus Trust receipts and payments account

1. Sale of equity and fixed income securities returned by LBI

Realisations in the period relate to the disposal or redemption of securities (\$195m) and derived income (\$2m) from securities held by LBIE not reserved for Non-Consenting beneficiaries.

2. Funds received in error

Funds received into the Omnibus Trust account in error subsequently transferred to the House account.

3. Distributions to beneficiaries

A first interim distribution at a rate of 100% of Best Claim values was paid on 26 September 2013. A 'catch up' first distribution and a second distribution at a rate of 6% were paid on 30 January 2014.

4. House debtor appropriations/ fees recovered / House assigned claims

Under the Common Terms, certain deductions against gross distributions to beneficiaries were allowed for onward payment to the House.

5. US withholding tax reserve

Pending the US withholding tax treatment being agreed with the IRS, each distribution was subject to a 30% tax reserve, except where the distribution was paid or attributable to a validly documented US person on a form W-9 at both a counterparty and beneficiary level. Of these tax reserves, \$0.95bn has been deposited with the IRS to be held on account pending agreement of tax liabilities.

6. Investment profile

Omnibus Trust	USD equivalent \$m
Short-term deposits	753
Interest-bearing accounts	139
Total	892

Cash management and investment policies for Omnibus Trust funds

The investment policies for short-term deposits and interest-bearing accounts are focused on preserving the security of the funds. This is achieved by the application of a comprehensive credit risk model as used in the House Estate, subject to consideration of any other regulatory requirements.

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 2013 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 2013, including the deferred element relating to 2013 that was subject to Committee review in early 2014.

The Committee has also approved remuneration arrangements for 2014, 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 2015, enabling the Committee to judge the Administrators' performance against medium-term as well as short-term objectives during 2014.

The Committee has been provided with Category 2 disbursement information relating to the 6-month period to 31 December 2013 amounting to £881,215. Disbursements of £1,342,370 were approved for payment in the period, including disbursements in respect of earlier periods.

Analysis of time costs

In the 6 months to 31 December 2013, time costs of £68,159,013 have accrued, totalling 197,606 hours at an average hourly rate of £345 (previously £335).

The Administrators' total time costs reduced by 4.6% in the period compared with the previous 6 months. This reduction reflected the net effect of:

- reduced activity in Trust and Affiliates work streams following the Omnibus Trust distributions and the reduced number of outstanding Affiliate issues; and
- reduced activity on the initial processing tasks undertaken by more junior staff in validating and valuing unsecured claims; offset in part by:

- increased activity in support functions, in large part, related to operational simplification initiatives to simplify infrastructure and reduce costs to match the changing needs of the Administration, whilst maintaining effective data retrieval and storage capabilities.

No further taxation refunds have been received by LBIE in the period via LBL, against which deductions for PwC time costs are ordinarily made by LBL.

Cumulative time costs accrued to 31 December 2014 are £761m. Total Administrators' remuneration and disbursements paid to 14 March 2014 are £796m.

The continuing complexity of the issues facing the Administration has required the continued engagement of specialists. During the 6-month period, some 603 (c.193 full-time equivalents) different UK and overseas staff members have been involved in the Administration to assist with the key work stream activities.

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 2013 to 31 December 2013.

Grade	Period 1 July 2013 to 31 December 2013	
	Hours	£'000
Partner	6,496	5,339
Director	11,217	6,941
Senior Manager	36,922	17,731
Manager	49,562	17,943
Senior Associate	65,438	15,852
Associate	27,971	4,353
Total	197,606	68,159

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

Activity		Period 1 July 2013 to 31 December 2013	
		Hours	£'000
Counterparties	Street	37,390	12,587
	Trust	17,664	5,610
	Affiliates	4,391	1,612
	Valuations	13,787	4,843
	Branches	3,155	1,436
Middle Office	Middle Office	23,418	8,335
Transaction Processing and Control	Transaction Processing and Control	24,681	8,222
COO	Administrators	6,771	3,211
	Chief operating officers	10,581	4,073
	Performance improvement and control	18,345	5,773
	Treasury	7,368	2,474
Other support functions	Tax	4,817	3,153
	Regulatory and compliance	3,303	1,133
	Information technology	19,732	5,091
	Shared activities (see below)	2,203	606
Total		197,606	68,159

Shared activities		Period 1 July 2013 to 31 December 2013	
		Hours	£'000
Employees		595	188
Estate accounting		116	42
Group services management		1,492	376
Total		2,203	606

Appendix C:

Future dividend payment dates

The timetable for future 'catch up' dividends for unsecured creditors, including the date for the execution of transfer notices, is set out below.

Cut-off date for claims agreement / transfer notice deadline	Payment date (on or around)
28-Mar-14	30-Apr-14
30-Apr-14	30-May-14
30-May-14	27-Jun-14
27-Jun-14	31-Jul-14
31-Jul-14	29-Aug-14
29-Aug-14	30-Sep-14
30-Sep-14	31-Oct-14
31-Oct-14	28-Nov-14

Please note that the 30 April 2014 payment date will coincide with the fourth unsecured interim distribution.

Appendix D:

Court update

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

Q4 2013	UK High Court	Substantive hearing of the Waterfall Application
		Substantive hearing of Administrators' application for directions regarding the extent of liabilities connected with the Lehman Brothers Pension Scheme. Judgment handed down on 18 December 2013
	Hong Kong High Court	Hearing for the Third Party Security Interest application made on behalf of the Liquidators of LBHK
Q1 2014	UK High Court	Judgment in the Waterfall Application (as mentioned above)
	UK Upper Tribunal (Tax and Chancery)	Case Management Conference for the reference by LBIE and others to the Upper Tribunal of a determination by the Pensions Regulator to issue an FSD against them
	Hong Kong High Court	Judgment handed down on 23 January 2014 (following the hearing mentioned above)

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

Q2/Q3 2014	UK High Court	Various specific Street counterparty litigation which is actual or potential, relating to either the recovery of debts due to LBIE or creditor claims. This is referred to in more detail in Section 6
	UK Appeal Court	Hearing in the appeal of the Administrators' application for directions regarding the extent of liabilities connected with the Lehman Brothers Pension Scheme (following the UK High Court proceedings mentioned above)
	UK Upper Tribunal (Tax and Chancery)	Case Management Conference for the reference by LBIE and others to the Upper Tribunal of a determination by the Pensions Regulator to issue an FSD against them

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:	Interim dividends announced to date at a cumulative rate of 100p/£1. 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 remains uncertain
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 Lehman Brothers Asia Holdings Ltd

Appendix F:

Glossary of terms

Abbreviation	Term	Definition
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986 applicable to LBIE following the granting of an administration order dated 15 September 2008
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.
AGR	AG Financial Products Inc.	A US-based affiliate of Assured Guaranty Corp. which provided credit protection to counterparties under credit default swaps
BarCap	Barclays Capital Inc.	Investment banking business of Barclays Bank PLC
Best Claim value	Best Claim value	A customer's claim for the purposes of the Consensual Proposal is the higher of either: the value of the accepting customer's claim on 19 September 2008 (and, for the avoidance of doubt, excluding income accruing after 19 September 2008); and the market value of an accepting customer's claim, including income, on 30 November 2012
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. 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 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
Common Terms	Common Terms	Common terms between LBIE and consenting beneficiaries to the Consensual Proposal
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 under the Common Terms. In settlement of the claims, each customer which is a party to the Common Terms is entitled to have allocated to it a share of the proceeds of the securities and cash received by LBIE from LBI
Consultation Period	Consultation Period	In the context of the Proposal, the period between 10 March 2014 and 28 March 2014 during which the Administrators discussed the Proposal with certain of LBIE's creditors on a confidential basis
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
Currency Conversion Claims	Currency Conversion Claims	Non-provable claims derived from contractual rights to be paid in a currency other than sterling, where the value of sterling has declined as against the currency of the claim between the date of Administration and the date(s) of payment of distributions in respect of the claim
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

Abbreviation	Term	Definition
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 the Financial Services Authority)	Regulator of providers of certain financial services in the UK - name change with effect from 1 April 2013
FSD	Financial Support Direction	Direction determined by the Pensions Regulator requiring financial support to be put in place for the purpose of maintaining the solvency of a defined benefit scheme in accordance with the Pensions Act 2004
HMRC	HM Revenue & Customs	Organisation of the UK government primarily responsible for the collection of taxes
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
IRS	Internal Revenue Service	A bureau of the Department of the Treasury of the United States federal government with responsibility for collecting taxes and the interpretation and enforcement of the internal revenue code
ISDA	International Swaps and Derivatives Association	Global trade association for OTC derivatives and maintainers of the industry standard ISDA documentation
LB Lux	Lehman Brothers (Luxembourg) S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBB (also referred to as Bankhaus)	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
LBEF	Lehman Brothers (Luxembourg) Equity Finance S.A.	Affiliate entity subject to insolvency proceedings in Luxembourg
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings Inc.	Ultimate parent of the Lehman group, incorporated in the US and formerly subject to Chapter 11 bankruptcy protection from 15 September 2008. The Plan 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	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
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.	Affiliate subject to insolvency proceedings in Curaçao, Kingdom of the Netherlands
LBSF	Lehman Brothers Special Financing Inc.	Affiliate entity subject to insolvency proceedings in the US
MCF	Mable Commercial Funding Limited	Affiliate entity subject to insolvency proceedings in the UK
Non-Consenting beneficiaries	Non-Consenting beneficiaries	Potential beneficiary under the Omnibus Settlement Agreement that did not make an offer to LBIE and therefore is not a party to the Common Terms

Abbreviation	Term	Definition
Omnibus Trust	Omnibus Trust	Trust under which the asset returns to LBIE by LBI of SIPA Customer Property relating to LBIE client positions are held and the assets constituting the Trust Property thereof
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
Post-Administration Interest	Post-Administration Interest	Statutory interest payable pursuant to Rule 2.88(7) of the Insolvency Rules
Proof of Debt (also referred to as POD)	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
SCSO	Small Claims Settlement Offer	An initiative under which creditors with agreed claims up to £150,000 were 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 alios</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
Storm	Storm Funding Limited	Affiliate entity subject to insolvency proceedings in the UK
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
Subordinated Debt	Subordinated Debt	The subordinated liabilities arising pursuant to 3 intercompany loan agreements entered into between LBIE and LBHI2, each dated 1 November 2006, and which have been assigned by LBHI2 to the Wentworth joint venture companies
Surplus Entitlement Proposal (also referred to as the Proposal)	Surplus Entitlement Proposal	Draft proposed solution for determination of creditors' entitlements to participate in the surplus arising after the payment of ordinary unsecured claims in full, published by LBIE on 28 March 2014
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 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 issued on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders

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