
Lehman Brothers International (Europe) – In Administration

Joint Administrators' seventh
progress report for the period from
15 September 2011 to 14 March 2012

12 April 2012

Important notice

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

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

The Administrators therefore caution creditors against using data in this report as the sole basis of an estimate of the value of their claims or any likely dividend ranges. LBIE, the Administrators, their firm, its members, partners and staff and its advisers accept no liability to any party for any reliance placed upon this report.

LBIE expressly reserves all of its rights against third parties (including Affiliates) on all matters and no conclusion should be drawn by third parties as to LBIE's legal arguments on any such matters from references made to these in this report.

While amounts included in this report are stated in sterling, a proportion of the assets and liabilities are currently denominated in currencies other than sterling.

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

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Section 1:

Purpose of the Administrators' progress report

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

This is the seventh such formal update to unsecured creditors and it provides details of progress for the six-month period 15 September 2011 to 14 March 2012. The statutory receipts and payments accounts for the same period are attached at Appendix B.

Wherever possible, the Administrators have sought not to duplicate information disclosed to creditors in previous updates and reports. Creditors are advised to refer to the Administrators' previous progress reports for background information. A copy of previous progress reports can be found at www.pwc.co.uk/lehman.

The Administrators plan to host a one-hour webinar on 30 April 2012, giving creditors an opportunity to hear a summary of recent developments in the Administration and its future outlook, as set out more fully in this update, and to participate in a Question and Answer session. Details of the webinar will be posted on the website (as above) in the near future.

Objective of the Administration

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

The specific aims of the Administration are to:

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

Creditors' Committee

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

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

During the period, a fifth creditor was appointed to the Committee. Details of the Committee members are listed in Section 10.

Future report and updates

The judgment from the UK Supreme Court in respect of Client Money has only recently been received and its implications continue to be assessed. We will provide a further update in respect of this and any other material developments, through the website, or by other means, as appropriate.

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

Signed:



AV Lomas

Joint Administrator
Lehman Brothers International (Europe) –
in Administration

Section 2:

Executive summary

Significant developments

The most significant developments in the six-month period ended 14 March 2012 were:

- finalisation of settlement terms with LBHI, LBSF and certain other US debtors ahead of their December 2011 Plan confirmation hearing. The Plan became effective on 6 March 2012;
- settlement with LBHK and approval of its terms by the Hong Kong court;
- the filing of an objection in respect of the LBI Determination of LBIE's Omnibus claim and agreement of a scheduling order for trial;
- settlement with LBS including the withdrawal of its c.£6.7bn claim against LBIE. A revised claim of less than £0.1bn is now expected;
- realisations of c.£1.8bn of cash from House assets (including c.£0.4bn cash recovered from a third party custodian in Asia), taking total receipts to date to c.£14.2bn;
- issuance of a further 617 Claims Determination Deeds to creditors with an aggregate value of c.£1.3bn (c.£4.2bn to date). c.£0.9bn of claims were agreed in the period (c.£2.6bn to date);
- the RASCALS UK Appeal Court hearing in October 2011, where the judgment was overwhelmingly in LBIE's favour;
- the BTB UK High Court hearing in early March 2012, with the judgment expected in the second quarter of 2012;
- progression of the Extended Liens UK High Court directions application, with its substantive hearing scheduled for September 2012;
- increased engagement with LBF with the objective of achieving an overall settlement;
- continuing dialogue with LBI, in an effort to reconcile and agree claims between it and LBIE;
- return of c.750 lines (c.£0.2bn) of Client Assets in the period (c.£13.2bn returns and collateral releases to date);
- the UK Supreme Court appeal hearing on pre-Administration Client Money in late October/early November 2011. Judgment was handed down on 29 February 2012; and
- substantive planning and preparation for first interim distributions for unsecured creditors and Client Money claimants.

Financial update

The updated indicative financial outcome includes illustrative claims and recoveries relating to Affiliates and certain (but not all) aspects of Trust Property. Pending completion of the assessment of the UK Supreme Court judgment implications, we continue not to make any quantitative assessment of the impact on the House Estate arising from matters related to Client Money.

In summary and subject to the very important caveats and assumptions set out in this report, the potential range of House recoveries is between c.£9.5bn and c.£13.4bn (after estimated costs) and the potential range of ordinary unsecured claims is between c.£14.7bn and c.£47.9bn.

In overall terms, the Low and High case scenarios are showing improvements in the updated indicative outcomes and in the Low case this improvement is material given our success in the period in resolving certain key Affiliate relationships. We are encouraged that the downside risks that are assumed in the Low case scenario are being progressively mitigated, with several material issues being eliminated in the last six months.

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

As before, we would caution readers that the Low case indicative outcome does not represent the prospective value of a first interim dividend. In particular, there is presently no final bar date for claims and therefore other reserves may be necessary, which could reduce the funds available for distribution. Furthermore, the indicative

financial outcome includes estimates of realisable value for certain assets which have not yet been achieved. Finally, the continuing uncertainty around establishing Client Money entitlements and the potential requirement for the House Estate to set aside funds to cover potentially significant amounts for Tracing may necessitate material reserves to be held, which would adversely impact the level of the first dividend to unsecured creditors.

Critical Administration work streams

The three most critical work streams as agreed with the Committee continue to be:

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

Client Money – exploring potential solutions to overcome the Client Money uncertainty as an impediment both to a first interim distribution to unsecured creditors and to Client Money claimants.

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

Against these priorities, the focus of the Administration is to facilitate first interim distributions for unsecured creditors and Client Money claimants as soon as possible. In the case of unsecured creditors, we are targeting to do this before the end of 2012, albeit no guarantee of this can be given at this stage. A first interim distribution to Client Money claimants is likely to take longer to achieve.

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

Court update

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

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

UK Supreme Court pre-Administration Client Money judgment

On page 29 we set out our preliminary assessment of the judgment that has been handed down and we describe our twin-tracked approach of exploring consensual resolution and seeking further UK High Court directions, if necessary.

Currencies and investment policies

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

Our policies continue to reflect a high level of caution and a low risk appetite and our investment strategy has further evolved during the period. Having previously switched a reasonably significant amount of funds from money market deposit to short-dated government bonds, we are now further diversifying into certain highly rated, short-dated corporate bonds.

Pending clarification of the extent of Client Money that might ultimately be traced into House recoveries, we have converted no significant further quantities of dollars or euros to sterling, although in the past six months we have converted to sterling substantially all of the other currencies recovered into the House account. Our foreign currency conversion policy remains under review, pending our consideration of how or whether the UK Supreme Court Client Money ruling enables us to progress a resolution of the matter.

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

Human resources

As at 14 March 2012, LBIE staff and contractor headcount was 503.

Pension fund deficit liability

The UK Appeal Court judgment was received in October 2011, which upheld the decision of the UK High Court that a pension fund deficit liability under a Financial Support Direction would constitute an expense of the Administration. This decision has been appealed to the UK Supreme Court, with an appeal hearing scheduled for May 2013.

Extension of the Administration and Administrators' appointment

The Administrators' application to extend the Administration for a further five years to 30 November 2016 was granted by the UK High Court on 2 November 2011.

PD Copley and R Downs were appointed as Administrators of LBIE on 2 November 2011 to replace MJA Jervis and DY Schwarzmann for operational efficiency purposes.

Route to first interim distributions

Currently, the last date for creditors to lodge their claims for the purpose of the Administrators making a first interim distribution to unsecured creditors is 31 December 2012 (the "bar date"). We plan to apply to the UK High Court to bring this date forward and further guidance in this respect will be given to unsecured creditors in due course.

It remains critically important for creditors who have yet to submit a Proof of Debt to do so before the bar date. Once the bar date has passed, a creditor that has not submitted a Proof of Debt, or has submitted one which is non-compliant, will not be able to benefit from the first interim distribution. In that case, the creditor may be eligible for a catch-up distribution, in due course, but still only subject to it having a compliant and agreed Proof of Debt and to there being available funds for this purpose.

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

Progress with the \$1 billion+ issues

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

No.	Issue	Status as at 14 March 2012
1	Recovery of securities, House cash and Client Money from a major international financial institution (now disclosed as Citibank).	Substantially completed as set out in the sixth progress report.
2	Agreement of a very significant number of unresolved financial trading positions with a second major international financial institution.	Active counterparty engagement continues.
3	Resolution of Over-Claims and other third party and Affiliate claims to ring-fenced assets and cash recoveries.	c.£1.9bn Over-Claims resolved in the period, c.£1.5bn remaining. Ring-fenced Affiliate and third party assets and excess Client Assets of c.£1.7bn (combined) released to the House Estate in the period.
4	Recovery of securities and House cash from certain third party custodians in Asia.	c.£0.4bn recovered from a major custodian. c.£0.5bn remains to be recovered from third party custodians in Asia.
5	Recovery of Client Money from and agreement of claims against LBB.	Frankfurt court hearing on 1 March 2012. Judgment expected in May 2012.
6	Resolution of Affiliate disputes relating to BTB, Extended Liens and RASCALS.	BTB UK High Court hearing in March 2012 and judgment is awaited. Extended Liens litigation commenced with a directions hearing held in December 2011. RASCALS appeal concluded, largely in LBIE's favour.
7	Recovery of Trust Property, House cash and securities currently held by Affiliates (LBHK, LBI and LBJ).	LBIE has objected to the LBI Determination of the Omnibus Customer claim and a scheduling order for trial has been agreed. LBIE's House Customer claim litigation continues with current focus on discovery of documentation. Extended Liens litigation continues to delay recovery of LBIE securities held by LBHK. Discussions are ongoing with LBJ.
8	Resolution of claims between LBIE and its Affiliates (principally LBB, LBF, LBHI*, LBHK*, LBI, LB Lux and LBSF*). <i>*concluded</i>	LBHI and its US debtor affiliates settlement completed and Plan approval granted. LBHK settlement approval granted by the Hong Kong court in the period. A claim of c.£7.9bn was provisionally notified to LBIE in the period by LB Lux. Dialogue continues with all material Affiliates.
9	Quantification of any Client Money taint on House recoveries and of the extent of Client Money entitlements to a share in the Client Money pool.	UK Supreme Court judgment received on 29 February 2012. Twin-track approach has commenced, exploring the potential for consensual resolution and at the same time making preparations to seek further UK High Court directions if this is ultimately required.
10	Resolution of contingent claims against the House Estate.	Formal settlement reached with LBS and good progress being made on other matters.

Section 3:

Financial update

Indicative outcome and basis of preparation

For the purposes of this report, we have provided indicative outcome ranges for the House Estate in respect of certain categories of assets and liabilities on a consistent basis with that included in our last report.

The table on page 10 provides a summary of the updated indicative financial outcome. Based on current information, and subject to the various material cautions and caveats set out in this report, the indicative range of financial outcomes suggests that available funds eventually will amount to between c.£9.5bn and c.£13.4bn and *pari passu* ranking ordinary unsecured claims will fall between c.£14.7bn and c.£47.9bn.

The indicative financial outcome has been prepared on a generally prudent basis. There are, however, the following three particularly significant issues that are likely to have a defining impact on the timing and value of the eventual recovery that unsecured creditors will make. We also refer creditors to our previous report and the explanations contained therein on the financial update.

1. LBI

The LBIE/LBI relationship is extremely complex, and contains three particular elements that are capable of materially affecting the outcome to creditors and claimants in both estates. The first of these elements is LBIE's Omnibus claim, the LBI Determination of which has been objected to by LBIE. In the LBIE estate, the outcome of this will determine if LBIE clients will recover all of their assets and cash that are held by LBI, and whether LBIE itself will recover the value of its various liens against certain of those assets and cash.

The second element is LBIE's House Customer claim against LBI, which was rejected by LBI and which LBIE subsequently objected to in the US Bankruptcy Court. We are informed by the LBI Trustee that the outcome of this matter will almost certainly affect the LBI Trustee's ability to make a 100% return of Customer Property. It will also likely have a material impact on the level of recovery that will eventually be made by the LBIE House Estate, on the basis that Customer Property

claims against LBI are senior to unsecured claims. No estimated recovery has been made in the indicative financial outcome in either scenario, given this uncertainty.

Thirdly, LBI has submitted a c.£8.8bn claim against LBIE including an amount subject to a Client Money claim, which LBI reserves its rights to amend in the future. The eventual determination of this claim could have a material impact on the outcome for LBIE's unsecured creditors and Client Money claimants.

See Sections 6, 7 and 8 of this report for further information relating to LBI.

2. Other Affiliates

We highlight on pages 12 and 13 those other Affiliates with which LBIE has had significant interaction pre-Administration and a summary of major unresolved issues. Full detail is included at Section 6.

In the period, resolution of Affiliate claims has materially progressed with the settlement of certain claims, although the resulting improvement in the indicative outcome has been offset in part by the receipt of a provisional claim from LB Lux of c.£7.9bn.

The range of illustrative recoveries reflected in this report recognises the progress we have made with certain Affiliates, including settlements. Where no definitive settlement has yet been reached, a range of outcome assumptions has been made.

3. Client Money

With regard to the recently received UK Supreme Court judgment, no assessment has been included in respect of the potential financial impact for unsecured creditors or Client Money claimants, pending further clarification.

Our need to reserve for the continuing uncertainties in determining Client Money entitlements and Tracing will adversely impact the timing and quantum of the first interim distributions, both to unsecured creditors and to Client Money claimants, unless there is further legal clarification or consensual resolution between the affected parties.

Indicative financial outcome

We set out in the table below a high level analysis showing our current view of the Low and High case financial outcome scenarios. Note that this summary takes no account of the impact of matters relating to Client Money (denoted as “n/a” in the table below and explained further in note 2 below).

	Low £bn	High £bn
House Estate (note 1)		
Cash deposits and short-dated government bonds	10.8	10.8
Client Money impact (note 2)	n/a	n/a
Projected future recoveries		
Third party debtors (see page 16)	0.2	1.4
Affiliate debtors (see page 12)	0.2	0.9
House depot securities	0.6	0.7
Client Assets claimant debtors (note 3)	-	0.7
Other (note 4)	-	0.2
Total projected recoveries	11.8	14.7
Priority claimants (note 5)	(0.8)	(0.3)
Future estimated costs	(1.5)	(1.0)
Funds available for unsecured creditors	9.5	13.4
Creditors		
Unsecured creditors (see page 32)	(16.3)	(12.4)
Client Assets claimant shortfalls (note 6)	(2.8)	(1.2)
Affiliate creditors (see page 13)	(28.8)	(1.1)
Client Money impact (note 2)	n/a	n/a
Total ordinary unsecured claims	(47.9)	(14.7)
Subordinated debt (note 7)	(1.2)	(1.2)
Total creditors	(49.1)	(15.9)

Notes:

1. This is an indicative financial outcome, subject to change, and should be read in conjunction with the narrative and assumptions set out in this report.
2. The eventual Client Money impact will reflect the aggregate effect (if any) of: (i) potential transfer of House funds to the Client Money pool that might be required as a consequence of Tracing; (ii) Client Money claimant debtor recoveries that might be made by assignment of Client Money entitlements to LBIE's nominated assignee; (iii) reduction in unsecured creditors that would arise from Client Money entitlement status being awarded following the UK Supreme Court ruling; (iv) unsecured claims that could arise from shortfalls in claimants' recovery of Client Money; and (v) potential recoveries of Client Money from certain Affiliates.
3. Potential House recoveries under liens from Client Assets claimants and from excess segregated Client Assets.
4. Other future recoveries represent potential further tax refunds. LBIE tax affairs are complex due to its size and the unusual nature of its transactions. No provision has been included for any corporation or income tax liabilities on the assumption that any liabilities arising from the Affiliate settlement agreements or post-Administration income will be sheltered by tax losses. The tax losses position is based on available LBIE records and is subject to agreement with HMRC.
5. Priority claimants include the potential pension fund deficit liability, certain indemnities given and other potential claims.
6. This relates to unsecured claims that could potentially arise from shortfalls in claimants' recovery of Client Assets from LBIE depots, including assets currently controlled by LBI.
7. This relates to amounts owed to LBIE's majority shareholder, LB Holdings Intermediate 2 Limited.

Movement in current indicative financial outcome

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

Movement in indicative financial outcome September 2011 – March 2012	Low £bn	High £bn
Deficiency for creditors at September 2011*	(44.8)	(3.7)
Deficiency for creditors at March 2012	(39.6)	(2.5)
Improvement in outcome	5.2	1.2
Represented by:		
Cash deposits and bonds	1.5	1.5
Projected future recoveries	0.3	(0.6)
Priority claimants	0.2	-
Affiliate creditors	4.6	0.3
Other creditors	(1.4)	-
Improvement in outcome	5.2	1.2

* Deficiency for creditors is calculated as funds available for unsecured creditors less total creditors from the indicative financial outcome. For more detail regarding any movement, please refer to the relevant section in the report.

Summary

The indicative outcome has improved in the last six months given the material settlements reached with certain Affiliates, which have been on favourable terms compared to the previously reported Low case outcome. Other improvements are generally reflective of prudent reserving and the ongoing realisation of assets ahead of expected values. Continuing uncertainty remains concerning key factors such as Client Money and other \$1 billion+ issues.

We repeat the warning given elsewhere in this report that creditors should not use this information alone as a basis of valuing their claim for recovery purposes or to predict the quantum of an interim distribution.

Affiliate relationships as at 14 March 2012 – debtors

Outbound claims (note 1)			
	Low £bn	High £bn	Comments/material unresolved issues (note 2)
Settled relationships (note 3)			
LBHI (note 4)	0.7	0.7	Excludes a Client Money related guarantee claim
LBHK (note 4)	0.6	0.6	Claim for assets subject to Extended Liens resolution
Subtotal	1.3	1.3	
Unresolved relationships (note 5)			
LBB	Commercially sensitive – details withheld		Antecedent transactions/Client Money
LBI (note 6)			Client Assets/Client Money/Extended Liens/House Customer claim status
LBJ			Claims agreement outstanding
LB Lux			Claims litigation suspended pending LB Lux estate resolution
LBF and other			BTB/Client Money/Extended Liens/Valuations/Various issues
Subtotal	0.8	11.6	
Outbound claims	2.1	12.9	
Estimated recoveries	0.2	0.9	

Notes:

1. Claims are reported at a claim value and do not necessarily reflect the realisable amount expected.
2. Various alleged rights and obligations arise from the post-Administration termination of certain contracts between LBIE and its Affiliates and from the impact of local insolvency legislation, resulting in a number of material claims being made between Affiliates which were not reflected in the Lehman group's accounting records at the time of the group's collapse.
3. Relationships with those Affiliates where settlement terms have been agreed, finalised and ratified by the relevant parties. Agreed claims reflect the terms of the settlements reached.
4. For the purposes of the table above, LBHI includes its US debtor affiliates which were also formerly in Chapter 11, except for Merit LLC. LBHK includes seven entities set out in Appendix A.
5. Relationships with those Affiliates where settlement discussions are at various stages of progress.
6. The Administrators are pursuing Customer Property status for House Estate claims with a value of c.£5.7bn against LBI included above. Because this claim has been rejected by the LBI Trustee and is the subject of litigation in the US, no estimate of recovery is made in our indicative outcome statement.

Affiliate relationships as at 14 March 2012 – creditors

Inbound claims (note 1)			Comments/material unresolved issues (note 2)
Low £bn	High £bn		
Settled relationships (note 3)			
LBHI (note 4)	(0.1)	(0.1)	
LBHK (note 4)	(0.2)	(0.2)	
LBS	(0.1)	(0.1)	
Subtotal	(0.4)	(0.4)	
Unresolved relationships (note 5)			
LBB	Commercially sensitive – details withheld		Antecedent transactions/Client Money
LBI			Client Assets/Client Money/Extended Liens/House Customer claim status
LBJ			Claims agreement outstanding
LB Lux			Claims litigation suspended pending LB Lux estate resolution
LBF and other			BTB/Client Money/Extended Liens/Valuations/Various issues
Subtotal	(28.4)	(0.7)	
Total	(28.8)	(1.1)	

Notes:

1. Inbound claim balances in currencies other than sterling are translated at exchange rates as at 15 September 2008.
2. Various alleged rights and obligations arise from the post-Administration termination of certain contracts between LBIE and its Affiliates and from the impact of local insolvency legislation, resulting in a number of material claims being made between Affiliates which were not reflected in the Lehman group's accounting records at the time of the group's collapse.
3. Relationships with those Affiliates where settlement terms have been agreed, finalised and ratified by the relevant parties. Agreed claims reflect the terms of the settlements reached.
4. For the purposes of the table above, LBHI includes its US debtor affiliates which were also formerly in Chapter 11, except for Merit LLC. LBHK includes seven entities set out in Appendix A.
5. Relationships with those Affiliates where settlement discussions are at various stages of progress. LBIE keeps actual and potential Affiliate claims under constant review and reserves its rights thereto.

Section 4:

First interim distributions

Summary

The focus of the Administration now is on making preparation for first interim distributions to both unsecured creditors and Client Money claimants, albeit matters are further advanced with regard to the former, which we hope to be able to achieve before the end of 2012. Following receipt of the UK Supreme Court judgment, we are also now developing plans to deal with Client Money claims and to make a first interim distribution from the Client Money pool. We are considering whether a CM Bar Date would assist us in working towards a Client Money distribution and will provide further guidance on this in due course.

The purpose of this section is to set out the key issues that it will be important for counterparties to understand and to action to ensure that their position is not inadvertently prejudiced as regards their inclusion in either of these distributions. We also highlight some of the material issues that will impact the level of dividends declared and the inherent challenges remaining that will need to be overcome for dividends to be paid.

On 2 December 2009, the UK High Court allowed the conversion of the Administration into a Distributing Administration to make a distribution to unsecured creditors. Key parts of the distribution process are: the timings around filing claims by creditors; the claims admission process adopted by the Administrators; and the declaration of a dividend. The process then leads to the payment of the first interim dividend. Subsequent dividends require this process to be repeated, except that creditors with admitted claims do not need to resubmit their claims.

This regime is governed by the Insolvency Act and creditors may find it helpful, if they have not already done so, to take legal advice.

Unsecured creditors

Timing for filing of Proof of Debt submissions

The critical relevant date is the bar date, which is the final date for creditors to lodge their claim for the purpose of the Administrators making a first interim distribution. The bar date is currently 31 December 2012.

Despite the issues raised by the recently received UK Supreme Court judgment on Client Money, it remains the Administrators' intention to seek the UK High Court's consent to bring forward the bar date and further guidance on this will be provided to creditors in due course.

It is therefore critical to ensure that, if a creditor wishes to be included in the first interim distribution, it submits a compliant Proof of Debt as soon as possible but no later than the final date for lodging claims. Further guidance is available on our website at www.pwc.co.uk/lehman.

The claims agreement process

The manner in which the Administrators have assessed Proofs of Debt that are already submitted has been in accordance with the framework developed under the Consensual Approach. This approach has been effective in leading to the claims of many creditors already being agreed and certain of these also being admitted (i.e. confirmed as unsecured-only claims with no Client Money entitlement). We expect, as we move closer to a first interim distribution, that the rate of claims admission will rise materially.

As explained in Section 9, the Administrators are now ready to commence bilateral negotiations in respect of those creditors who have rejected their Consensual Approach offer. However, it is highly unlikely that the process will have been completed for all creditors prior to the first interim distribution, in particular given the volume of expected proofs, the complexity of the claims and the fact that so many creditors are seemingly delaying in submitting their proofs.

The Administrators wish to emphasise that a submission of a compliant Proof of Debt by the bar date does not guarantee that the claim will be capable of determination and/or agreement prior to the first interim distribution. The Administrators will communicate separately with creditors where this position arises.

The Administrators reserve the right to reject a Proof of Debt in accordance with the Insolvency Rules. A creditor has a right to apply to the UK High Court for a rejection to be varied or reversed, if dissatisfied.

Please see Section 9 for more guidance on the unsecured creditors claims agreement process.

Declaration of a dividend

In the context of our planned bar date application to the UK High Court, we are also considering seeking an order that the maximum period between the final date for proving and the declaration of a dividend is extended from the statutory two months to a longer period of time. This recognises the unparalleled complexity of the claims and unresolved issues in this matter, in addition to having to deal with the large number of new Proofs of Debt likely to be submitted in the period immediately prior to the bar date.

We hope to be in a position to announce a first interim dividend later this year, but this is dependent on a number of factors that could prevent us from doing so, most notably the impact of the UK Supreme Court Client Money judgment.

Dividend reserving

Once the Administrators are in receipt of all compliant Proofs of Debt which are then either admitted, rejected for inclusion in the first interim distribution or remain under consideration, they will be able to assess the most appropriate level of reserves to be made in calculating the quantum of the first dividend. This will be by reference to Proofs of Debt that remain under consideration (or have been rejected but are still pending) and other relevant contingencies, including any relating to Client Money issues, such as Tracing.

Key issues impacting the dividend

The level of the first dividend will be impacted by the following material factors:

- the further recoveries made by the House Estate in the meantime;
- the outcome of the most significant inbound Affiliate claims which remain pending;
- the proportion of unsecured creditors filing Proofs of Debt sufficiently ahead of the eventual bar date (and the ability therefore to deal with Proofs of Debt ahead of declaring the dividend);
- the acceptance rate of offers made under the Consensual Approach and progress of bilateral negotiations; and

- the extent to which the Administrators are able to quantify the aggregate value of eligible Client Money entitlements and/or the maximum extent of Tracing into Administration recoveries that are currently accounted for as being the property of the House Estate.

Creditors should be aware that, if sufficient progress cannot be made in seeking consensual resolution of the Client Money matter with affected parties and if there remains significant legal uncertainty relating to Client Money entitlement and/or Tracing rights, in due course, we may conclude that proceeding with an interim unsecured distribution in 2012 is not possible.

Client Money claimants

The Administrators are also now beginning to make preparations for the payment of a first interim distribution to Client Money claimants, albeit this is dependent upon many of the same factors that may impact the prospects for a first interim distribution to unsecured creditors, as well as other uncertainties.

Further guidance on the process for filing and agreement of Client Money claims will be provided in due course.

For the avoidance of doubt, the making of a distribution to Client Money claimants is not governed by the same statutory regime as that which applies for distributions to unsecured creditors and this is likely to create additional complexity.

Section 5:

House Estate

Highlights

- c.£0.5bn recovered in the period from debtors, including c.£0.4bn from a major Asian bank.
- Total realisations from Street debtors are now c.£5.9bn.
- Settlements agreed with a further six “top 150” Street debtor groups. Completion of a further 25 smaller groups.
- Commenced litigation against AG Financial Products Inc (total claim: c.£1.0bn).
- Made progress with negotiations or preparation for litigation with the remaining “top 150” Street debtor groups.
- Realised c.£0.8bn from the sale of House securities.

House third party debtors

Debtors (excluding Affiliates) within the House Estate comprise:

	No. of cpties	Recoveries	
		To date £bn	Indicative future Low High £bn £bn
Street counterparties	1,693	5.9	0.2 1.3
Exchanges	24	1.4	- 0.1
Trust Property claimants	102	0.1	- -
Total	1,819	7.4	0.2 1.4

Street counterparties are discussed below. 81 such counterparties considered by LBIE to be debtors have filed Proofs of Debt (total: c.£0.6bn). In previous reports, we netted this amount in the above table against future recoveries. In this report, we have included this amount within the unsecured creditors section instead (Section 9).

Amounts recoverable from Exchanges relate to funds that continue to be withheld in particular Asian markets. A reallocation of c.£0.1bn from Exchanges collateral received in prior periods to House securities recovered has been made in the period (and the amount has been ring-fenced for potential Affiliate claims).

Recoveries from Trust Property claimants above reflect receipts in excess of those secured by Client Assets liens (recoveries under liens are included in the indicative financial outcome within Client Assets claimant debtors).

Street counterparties

Focus

For the largest of the Street counterparties, negotiations are typically conducted with groups of entities related through legal affiliation or through a common agent or asset manager.

The Administrators' primary focus continues to be on resolution of the remaining 67 "top 150" groups, followed by progressing the smaller outstanding counterparties.

Debtors continue to be prioritised in order to target Administration resources in areas likely to realise the greatest financial benefit for the estate, either through additional cash realisations or, more commonly, through confirmation that "on-account" amounts already received will in fact be available for distribution in due course.

Indicative future recoveries from Street counterparties are summarised as follows:

	No. of cpties	No. of groups	Mid-market LBIE value £bn
Top 150 groups:			
Completed	221	83	4.7
Not completed	262	67	5.0
Other:			
Completed	358	275	0.3
Not completed	852	739	0.4
Total	1,693	1,164	10.4
Less:			
Cash and collateral received			(5.9)
Identified adjustments (Low - High)			(4.3) - (3.2)
Indicative future recoveries (Low - High)			0.2 - 1.3

The mid-market valuation represents LBIE's current view of the mid-market value as at the termination date (where terminated) or an estimate of the value as at 14 March 2012 for remaining live positions.

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

Due to the uncertainty of outcome, the Administrators have assumed no recoveries from litigation in the Low case outcome.

Progress

As at 14 March 2012, c.£5.9bn of cash and other collateral had been recovered from Street debtors. Of this amount:

- c.£4.0bn has been recovered from settled counterparties; and
- c.£1.9bn has been received on-account where negotiations to agree a final account are ongoing.

Asian bank recovery

At the date of Administration, c.£0.5bn was held at a major Asian bank, which acted as a custodian in its local territory for LBIE. LBIE has been pursuing the recovery of these funds since September 2008, for the benefit of the House Estate and for a specific Trust Property claimant. This has been an extremely complex process, requiring government approvals, tax audits, regulatory clearance and resolution of local legal issues.

In November 2011, c.£0.4bn of cash was recovered for LBIE and c.£0.06bn for the Trust Property claimant.

A residual balance is subject to an ongoing OTC derivatives dispute. LBIE continues to pursue this and the Administrators are optimistic that this matter can be concluded in the near future.

Settlements

Settlements were reached during the period with a further six “top 150” debtor groups as follows:

- c.£13m from five funds managed by a European-based asset manager;
- c.£11m from a privately-owned investment management company;
- c.£11m from a global asset manager;
- c.£10m from a global insurance and pensions company;
- c.£8m from an open-ended fund incorporated in Luxembourg; and
- c.£8m from a fund managed by a European-based manager.

Further settlements totalling c.£34m were reached with 25 different counterparty groups outside of the “top 150”.

Litigation

During the period, LBIE commenced litigation in New York against AG Financial Products Inc in relation to a debtor claim of c.£1bn. The dispute arises from the valuation of the close-out of a portfolio of credit default swaps on asset-backed securities and indices.

In the same period, two separate legal proceedings in an Asian jurisdiction were successfully defended, the purposes of which had been to attempt to seize LBIE assets to settle other Affiliates’ debts. LBIE continues to explore potential solutions to recover its remaining assets.

In relation to disputes over non-mutual set-off with several counterparty groups, LBIE is in the final stages of preparation before commencing legal proceedings against the first of these.

As indicated in the last progress report, a UK Appeal Court hearing was held in December 2011 for LBIE’s appeal of the judgment made in relation to JFB Firth Rixson, Inc and others of an entitlement to withhold payment of certain live derivative positions that the relevant counterparties had declined to terminate.

The UK Appeal Court handed down its judgment on 3 April 2012. It reversed the UK High Court judgment that on expiry of the derivatives contracts the payment obligation of the non-defaulting counterparty was discharged. However, the UK Appeal Court found that the payment obligation remains suspended until the event of default is cured. The respondents requested leave to appeal further to the UK Supreme Court; this was rejected by the UK Appeal Court but they could still apply directly to the UK Supreme Court if they wish to pursue this matter. The Administrators are considering how best to proceed in light of the judgment.

For the majority of “top 150” debtor groups that have not yet been settled, significant and complex issues remain to be addressed. In a number of these cases LBIE is now preparing to commence legal proceedings (some of which are in overseas jurisdictions). Whilst mindful of the potential extended timescales and costs associated with litigation, proceedings are now considered to be the only viable way forward, having exhausted all other routes to settlement with these particular counterparties.

House securities

Focus

LBIE's primary focus in respect of House securities continues to be:

- an orderly disposal of "available-for-sale" securities so as to maximise realisations and reduce market risk, recognising that certain of these securities are relatively illiquid;
- recovery of securities still held by third party and Affiliate custodians;
- an ongoing review of securities held subject to client or Affiliate disputes with the objective of releasing these for sale as title issues are resolved; and
- timely exercise of rights and processing of corporate actions.

Progress

As at 14 March 2012, securities remaining in the House depot can be categorised as follows:

	£bn
Available-for-sale	0.7
Held subject to client disputes	0.2
Held subject to Affiliate disputes	1.0
Residual assets held at Citibank	0.2
Held by LBI (subject to House claim)	3.3
Held by LBHK/LBJ	0.7
House depot at 14 March 2012	6.1

The principal movements in the period were:

- c.£0.8bn was realised from the sale or redemption of "available-for-sale" securities, bringing total realisations to date to c.£4.0bn;
- c.£0.5bn was released for sale (for the benefit of the House Estate) from assets previously held subject to client dispute, following negotiation with clients and a review of LBIE's ring-fencing methodology; and
- a further c.£0.5bn of assets has been released from Affiliate title disputes as a result of the settlement with LBHK and the RASCALS judgment in December 2011, the majority of which has been made available for sale.

The remaining assets held at Citibank principally relate to a specific territory from which the Administrators, despite ongoing efforts, have as yet been unable to recover assets. Certain of the assets held by Citibank and Affiliates are also subject to client and Affiliate disputes.

Section 6:

Affiliates

Highlights

- Settlement achieved with LBHI and its US debtor affiliates formerly in Chapter 11. The Plan of Reorganisation was confirmed by the US Bankruptcy Court in December 2011 and became effective on 6 March 2012.
- US Bankruptcy Court pre-trial discovery work progressing in relation to LBIE's objections to LBI Determinations of the House and Omnibus Customer claims.
- LBIE's settlement agreement with LBHK was approved by the Hong Kong court on 7 October 2011. Return of c.£0.6bn of LBIE assets held by LBHK agreed, subject to Extended Liens resolution.
- Settlement achieved with LBS resulting in the withdrawal of its inbound claim of c.£6.7bn. A revised claim of less than £0.1bn is expected.
- Following the RASCALS appeal hearing in October 2011, the UK Appeal Court ruled in LBIE's favour for the majority of the RASCALS assets and no further appeals are being pursued. c.£1.1bn of ring-fenced cash and securities has been released to House.
- LBIE has been notified of a provisional inbound claim from LB Lux of c.£7.9bn.

Focus

LBIE continues to focus on resolution of the remaining Affiliate disputes with material value.

The current areas of specific focus are:

- advancing the House and Omnibus Customer claims made against LBI and claims made by LBI against LBIE, through a combination of legal action and continued dialogue in search of a consensual solution;
- continuing to pursue settlement discussions with LBF, which would see the resolution of Client Money, BTB and all other issues of dispute between the parties, whilst concurrently ensuring progression of the formal legal processes in the event that settlement cannot be achieved;
- negotiating the consensual withdrawal of the c.£9.2bn of inbound claim from LBB, whilst continuing to advance LBIE's Client Money claim against LBB;
- collaborating with LBHI and LB Lux to maximise recoveries into the LB Lux estate and to resolve the litigation between LB Lux and LBIE, including the withdrawal of the recently notified prospective LB Lux claim of c.£7.9bn;
- agreeing the asset entitlements of Affiliates, in anticipation of returning assets and calculating unsecured shortfall claims thereon;
- engaging with as many of the smaller Affiliate claimants as possible to agree their claims and maximise the population able to participate in the first interim distribution to unsecured creditors; and
- agreeing and admitting other Affiliate claims received via the Affiliate Claims Portal.

Progress

LBHI and its US debtor affiliates formerly in Chapter 11

On 15 September 2011, LBIE reached an agreement in principle with LBHI and its US debtor affiliates formerly in Chapter 11 to settle all claims between them. The agreement was executed on 24 October 2011 by LBHI and certain US debtor affiliates and by LBIE and certain UK Affiliates.

The settlement agreement was disclosed within the Plan supplement filed by the Chapter 11 entities on 25 October 2011, which formed part of the Plan confirmed by the US Bankruptcy Court on 6 December 2011.

The settlement agreement became fully binding and operational when the Plan became effective on 6 March 2012.

This settlement agreement represents a very important milestone for LBIE, as it resolves a large number of complex and high value issues between the parties, including:

- agreement of outbound unsecured claims of c.£1.3bn in aggregate, including c.£0.6bn for the ultimate benefit of LBIE Client Money claimants;
- asset recoveries of c.£0.4bn comprising RASCALS assets released to House;
- admitting inbound unsecured claims of c.£0.1bn, which will rank for dividend in the LBIE estate in due course;
- agreement to return certain assets to a number of US debtors and UK Affiliates (subject to Extended Liens); and
- withdrawal of previously filed inbound claims of c.£4.5bn.

LBI

House Customer claim

As previously reported, LBIE filed an objection notice to the LBI Determination on 1 August 2011 (LBIE's claim is c.£5.7bn). The US Bankruptcy Court process is currently at its pre-trial discovery stage, with the substantive hearing not expected to take place prior to January 2013.

The identification, collection and production of information is in progress to meet the recently extended document discovery deadline of 16 May 2012. This will be followed by depositions, which are due to be completed by the end of August 2012.

In our previous report to creditors, we commented that LBI had submitted a revised inbound claim of c.£8.8bn against LBIE. The Client Money aspect of this claim is discussed in Section 8 to this report.

LBIE has invested significant resource in reconciling the LBI revised inbound claim against LBIE's books and records. It is LBIE's view that the LBI revised inbound claim is significantly overstated, as LBI has submitted its claim on a gross basis, ignoring certain elements already included as deductions from LBIE's House claim.

Based on our analysis, we remain of the view that there continues to be an overall net balance due to LBIE from LBI.

On 1 December 2011, the LBI Trustee recommenced the process of allocating his estate between the fund of Customer Property and the balance that would be available for the General Estate claimants, after making a significant reserve for ongoing litigation arising from the earlier sale and transfer of its business. LBIE has played an active part in working with LBI and other interested parties to reach agreement on the basis of the allocation. A further substantive hearing is expected in the next 30 days to confirm an agreed allocation or otherwise determine a scheduling order for a trial if the allocation motion proposed by the LBI Trustee is contested. This matter is of direct relevance to LBIE's House Customer claim because, to the extent that LBIE's claim is eventually admitted, its settlement in full will depend in part upon the division of LBI estate funds through the allocation motion.

Omnibus Customer claim

The Omnibus Customer claim is being pursued largely for the benefit of Client Assets claimants and is discussed in Section 7.

Settlement vs. litigation

With three major matters currently being litigated between LBI and LBIE (House and Omnibus Customer claims and Client Money claims), a very substantial amount of information having been exchanged, detailed legal and financial analysis having been conducted and extensive consultation having been had with LBIE Committee members and a selection of Client Assets claimants, we have a clear preference to expedite matters through consensual agreement in the same way that we have done with certain other major Affiliates. To that end, during the

period, we instigated a dialogue with LBI to begin to explore if an overall settlement might be achieved. We cannot predict whether or not this will be successful and how long it might take to reach a successful conclusion, but we will keep creditors appropriately informed.

LBHK

Following the successful settlement with LBHK in October 2011, LBIE has continued to engage with the LBHK liquidators to agree the post-settlement adjustments required to finalise their claims against LBIE. Good progress has been made and it is expected that all outstanding claim issues will be resolved shortly to ensure LBHK participates fully in the first interim distribution.

The consequences of the settlement reached with LBHK are:

- settlement of the RASCALS dispute and release of c.£0.3bn of RASCALS assets for the benefit of the House Estate;
- agreement for the return of c.£0.6bn of LBIE assets held by LBHK, subject to resolution of Extended Liens; and
- agreement of inbound claims of c.£0.2bn from LBHK entities.

The return of assets from LBHK to LBIE remains contingent on the outcome of the UK High Court Extended Liens application and LBHK's own local proceedings regarding the same matter, or the prior consensual resolution of this matter between affected Affiliates.

LBF

There has been extensive engagement in the period with LBF, with significant progress made. However, there remain differences in the legal interpretation of the treatment of various balances in respect of which LBF is a participant in both the BTB and Client Money legal proceedings.

During the period, LBIE was successful in the RASCALS application to the UK Appeal Court. LBF was the only appellant in the proceedings and has made no further appeal. Accordingly, LBIE has been able to release c.£0.4bn of previously ring-fenced RASCALS assets to the House.

Over the course of the period, we have become more hopeful of achieving an overall, consensual settlement with LBF, albeit we continue to progress litigation in the event that this cannot be achieved.

LBB

We have worked with LBB to facilitate negotiations between LBIE, LBB and two UK Affiliates to agree a consensual withdrawal and resubmission of claims on a net basis between all parties. An outline draft agreement is presently being considered and, if concluded, will lead to the withdrawal of c.£9.2bn of LBB inbound claims against LBIE and the agreement of a LBIE outbound claim against LBB.

The currently proposed settlement excludes the LBIE Client Money outbound claim (discussed in Section 8), which is still subject to Frankfurt legal proceedings.

LBS

In the period, LBIE and LBS successfully concluded a settlement to facilitate the withdrawal of the LBS inbound claim of c.£6.7bn against LBIE. LBIE has also cooperated with LBS in respect of concluding its own claims agreement process, which resulted in the setting and recent passing of a bar date for claims against it. LBIE is awaiting final confirmation from the court of the Netherlands Antilles (where LBS is domiciled) that there are no further inbound claims to be filed against LBIE. As part of the settlement, for a limited period LBIE will continue to provide custody services for certain securities issued by LBS, pending their cancellation.

LBIE expects LBS to submit a replacement inbound claim against LBIE of less than £0.1bn.

LBJ

LBIE continues to pursue the return of the final tranche of stock-lending assets from LBJ (less than £0.1bn remains).

Following extensive engagement with LBJ, an inbound claim of c.£0.3bn has now been filed against LBIE in the Affiliate Claims Portal. It is expected that the final value of the claim will soon be agreed and admitted for dividend purposes.

LB Lux

LB Lux has notified LBIE of its intention to file a claim against LBIE for c.£7.9bn. LBIE sees no merit in the claim.

Following the LBHI/LBIE settlement agreement, the parties made a combined approach to the LB Lux liquidators in late 2011 and have agreed with the liquidators to provide assistance to them, as far as possible, to help maximise net recoveries for the LB Lux estate, which LBIE and LBHI will ultimately share if there is a surplus after third party claims.

As a result of this consensual approach, all litigation between LBIE and LB Lux in the Luxembourg court has been stayed until May 2012. It is LBIE's expectation that these proceedings will continue to be deferred whilst LBIE and LBHI assist the LB Lux liquidators to resolve their estate and settle the claims that have been made against it, including those of LBIE and LBHI.

UK Affiliates

Significant progress has been made in agreeing trade populations and valuing claims between LBIE and its UK Affiliates.

LBIE expects that all the major UK Affiliates will be in a position to file claims in the Affiliate Claims Portal in the second quarter of 2012. This will allow LBIE to agree and admit a number of these claims to rank for dividend and to return custodied assets (subject to resolution of Extended Liens).

Other Affiliate claims

LBIE has continued its engagement with other Affiliates, with the objective of negotiating and agreeing filed claims.

LBIE continues to encourage Affiliates to submit their claims on the Affiliates Claims Portal as soon as possible. To date, 83 Affiliates (last report - 67 Affiliates) have accessed the Affiliate Claims Portal, with 10 claims (last report - one claim) being formally lodged through the portal.

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

Litigation

The current status of legal proceedings is set out below.

BTB

The BTB UK High Court hearing was held in early March 2012 over two days. LBF is the only respondent in the proceedings.

It is expected that a judgment will be handed down in the second quarter of 2012.

Extended Liens

LBIE participated in a directions hearing in December 2011, which set the timetable for exchange of documentation in advance of a substantive UK High Court hearing scheduled for October 2012. There is also a pre-trial review hearing currently scheduled for June 2012.

During the past six months, custodied assets have been returned to one Affiliate that satisfied the necessary release conditions set by the UK High Court in 2011 where no relevant agreement existed. Other Affiliates are at various stages of this process.

LBIE continues to explore with other Affiliates whether an overall settlement may be reached with each of them that would enable the return of all securities to Affiliates on an agreed basis as an alternative to continuing with the current litigation.

Section 7:

Client Assets

Highlights

- LBIE filed its objection to the revised LBI Determination of c.\$8.3bn in respect of the Omnibus claim on 31 October 2011. A scheduling order setting out the litigation timeline has been agreed. The case will be ready for trial in January 2013. In parallel, LBIE continues to explore opportunities for a negotiated settlement to the Omnibus claim.
- On behalf of certain of LBIE's clients, an agreement has been reached with LBI that will allow LBIE to distribute to clients c.£0.1bn of Client Assets currently in LBIE's possession. These assets were previously subject to a competing claim from LBI.
- Updated statements have been issued to c.300 clients in respect of their claims for assets historically custodied at LBI.
- Client Assets valued at c.£0.2bn were returned in the period, comprising 954 individual CRA client holdings.
- Total Client Assets returned to date are c.£13.2bn across more than 4,500 individual holdings.
- Over-Claims of c.£1.9bn were materially resolved or reconciled in the period.

Focus

The focus relating to Client Assets continues to be:

- resolution of the LBIE Omnibus claim against LBI;
- recovery of Client Assets held by other overseas Affiliates on behalf of LBIE's clients;
- resolution of issues and uncertainties that restrict the addressable population of Client Assets available for return, in particular Over-Claims and Extended Lien claims;
- the return of Client Assets to counterparties either through the CRA mechanism or bilateral negotiations;
- recovery or collateralisation of debts owed to the House Estate by Client Assets claimants; and
- identification of over-segregated securities held in the client depot and release of these to the House Estate for sale.

Progress

LBI – Omnibus Customer claim

In light of the substantive conclusion of the “settlement roll-forward” exercise with LBI, we have refreshed LBIE's records to move away from our previous assumption of perfect settlement for LBI-related pending trades, as at the date of Administration (used as a basis of preparation of Client Assets entitlements in earlier reports), towards actual settlement as now reported to us by LBI.

Changes in the period are as follows:

LBIE view of securities and cash	£bn	\$bn
Reported as at 15 September 2011	2.1	3.3
Adjustment for confirmed settlement	1.3	2.0
Revised securities position	3.4	5.3
Client cash position	1.4	2.3
LBIE view of client positions	4.8	7.6

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

LBIE estimates c.£1.4bn of cash is due from LBI. This cash represents settlement proceeds from the client sell trades that were still pending at the date of Administration and have now been identified by LBI as having been settled in the week ended 19 September 2008.

During the last six-month period, LBIE has provided its clients with statements in respect of revised LBI-related cash and securities estimates, based upon detailed information received from LBI. The client statements reflect LBIE's interpretation of the result of the LBI Omnibus securities roll-forward exercise, which brought forward LBI's and LBIE's books and records from 15 September 2008 to 19 September 2008. The aggregate amount of securities and cash included in the statements and claimed on behalf of the underlying clients totals c.£4.8bn.

In addition to the c.£4.8bn noted above, the Omnibus claim includes further amounts in respect of customer activity.

Although the Omnibus settlement reconciliation exercise appears to be materially concluded, there remain significant disagreements between LBIE and LBI relating to the adjustments that should be made as a result of pending trades. Moreover, the settlement data provided by LBI has not been finally confirmed by LBI and remains subject to change.

The value, form and timing of any recovery from LBI cannot be determined with any certainty at this time. Claimants are reminded that the Omnibus claim is subject to legal proceedings in the US, as set out more fully below.

As previously reported, on 19 May 2011, the LBI Trustee issued a revised LBI Determination that he indicated has a value of c.\$8.3bn in respect of the LBIE Omnibus claim. LBIE has analysed the revised LBI Determination and has concluded that it is deficient in a number of respects, including the following matters:

- the LBI Trustee has assessed liabilities that LBI incurred during the week of 15 September 2008 against LBIE's clients whereas LBIE believes such liabilities properly should have been assessed against LBIE in its House capacity consistent with LBI's and LBIE's

contractual relationship and the historical course of dealings;

- the LBI Trustee has imposed certain conditions on LBIE's ability to distribute the allowed claim that LBIE believes are contrary to SIPA; and
- the mix of cash and individual securities set forth in the revised LBI Determination is inconsistent with what is required by SIPA and does not match the positions due to LBIE's underlying clients. The scope of the mismatching securities and cash positions is so significant that, if the revised LBI Determination was accepted in its current form, only a small number of LBIE's underlying clients would escape being impacted.

Set out below is a high level analysis of the LBI Determination of the Omnibus claim:

	Cash \$bn	Securities \$bn	Total \$bn
Gross award	2.2	7.3	9.5
Negative securities	-	(1.2)	(1.2)
LBI Determination	2.2	6.1	8.3
Adjustments:			
Valuation difference	-	(0.8)	(0.8)
Subject to conditions/ unmatched securities	(3.2)	(2.4)	(5.6)
Available for use	(1.0)	2.9	1.9

The following important points should be noted when considering the LBI Determination:

- values are stated as at 19 September 2008, being the relevant date in LBI's insolvency process;
- negative securities are those which have been recorded by the LBI Trustee as a deduction to the overall LBI Determination. They are also included in the LBI inbound claim of c.£8.8bn;
- LBI has reserved the right to reduce further the LBI Determination for amounts owed to LBI by the underlying clients;
- in the event of a shortfall in the LBI Customer Property pool, the recovery will be less than the entitlement noted;

- to date, LBI has provided no information on which securities are actually held by it nor how the LBI Determination, once final, will be settled (through release of securities or cash in lieu);
- LBI has yet to provide any valuation data for individual securities (the valuation difference of c.\$0.8bn noted in the table above is derived from comparing the total LBI Determination amount with the product of our own detailed workings);
- LBIE intends to enforce a lien against LBI-related assets where any client indebtedness to LBIE remains outstanding; and
- LBI asserts that c.\$13bn of duplicate claims has been made by LBIE clients against LBI. LBI has stated that it will require these claims to be withdrawn or rejected prior to any final agreement of the Omnibus claim.

In view of certain of these and other issues, LBIE filed an objection to the revised LBI Determination on 31 October 2011. LBIE also filed a response to the LBI Trustee's position statement on 24 February 2012.

A scheduling order was agreed by LBIE and LBI and approved by the US Bankruptcy Court by which the Omnibus claim will be ready for trial in January 2013.

The indicative financial outcome in Section 3 includes a range of assumed recoveries on the LBI client entitlements, which in turn impact House recoveries from Client Assets claimants and unsecured claims arising from Client Assets shortfalls.

Client Assets analysis (excluding LBI)

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

	£bn
Reported as at 15 September 2011*	1.5
Returned to clients in the period	(0.2)
Revaluation and exchange rate movements	0.2
Redemptions	(0.2)
Client Assets as at 14 March 2012*	1.3[^]

* excludes LBI-related items and potential asset excesses held in the client depot.

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

These Client Assets comprise:

	£bn
In LBIE-controlled depots:	
CRA claimants	0.6
Non-CRA claimants	0.6
Total	1.2
LBHK	0.1
Client Assets as at 14 March 2012	1.3

LBIE-controlled assets are valued as at 14 March 2012. Assets controlled by other entities are valued as at 19 March 2010.

Client Assets returns

In the period, 954 separate client holdings were returned to CRA counterparties, representing a total value of c.£0.2bn. This included 183 lines returned under the small claims process. Since the bar date, over 4,500 lines have been returned to CRA counterparties.

To date, the return of the majority of remaining non-CRA Client Assets has remained blocked by LBI-related issues. During the six-month period, a sub-set of the competing claims previously made by LBI against Client Assets, asserting that the LBI SIPA Trusteeship process should deal with them was resolved. The return of Client Assets to these counterparties previously affected by the retracted LBI claims has resumed. LBIE continues to work with LBI to reach agreement on the remaining competing claims.

Debtor recovery

Some of the counterparties that have Client Assets entitlements are also debtors to the House Estate. In the period, recoveries of less than £0.1bn were secured via receipt of cash collateral from indebted counterparties.

In many cases future recovery of debtor balances are dependent on the recovery of LBI-controlled assets.

Over-Claims and ring-fencing

In certain cases, LBIE has received multiple claims for the same Client Assets holdings. Until resolved, these Over-Claims prevent the return of the affected Client Assets to their rightful claimants. The majority of Over-Claims relate to amounts already provided for by LBIE, albeit as unsecured claims. To the extent that LBIE holds equivalent assets which are subject to unresolved Over-Claims, these continue to be fully ring-fenced and excluded from the House Estate.

An analysis of Over-Claims is as follows:

	£bn
Over-Claims at 14 September 2011	3.4
Over-Claims resolved or reconciled in the period	(1.9)
Total Over-Claims at 14 March 2012	1.5
Comprising:	
Over-Claims asserted for assets within LBIE's control	0.3
Over-Claims asserted for assets outside LBIE's control	1.2

In the period, Over-Claims relating to assets within LBIE's control reduced by c.£1.2bn. Additionally, c.£0.7bn of Over-Claims relating to Client Assets outside of LBIE's control was also reconciled, largely as a result of the LBI Omnibus securities roll-forward work completed in the period.

Asset excesses

The review of the client depot to identify securities that may have been over-segregated is ongoing. Any excess assets that are identified are transferred to the House Estate. Transfers of c.£0.1bn were made in the period (c.£0.4bn to date).

Asset shortfalls

A House Estate provision of c.£0.1bn is currently made for estimated shortfalls on Client Assets within LBIE's control (i.e. excluding any shortfalls arising from LBI and other Affiliate custodied securities). This represents a small proportion of the total Client Assets entitlements. Potential shortfalls on assets still held by Affiliates continue to be uncertain due to the broad range of unresolved issues with those estates (LBI in particular).

LBHK

LBHK remains unable to release any Client Assets held for LBIE clients until the Extended Liens dispute is resolved (see Section 6).

In the period, details of the Hong Kong depot holdings have been shared with the affected clients to confirm the LBIE view of assets that the Administrators are optimistic will be returned in due course by LBHK.

Section 8:

Client Money

Highlights

- UK Supreme Court hearing held in late October/early November 2011. Judgment was handed down on 29 February 2012 but did not provide the hoped for clarity on all the issues.
- Plan to facilitate the payment of a first interim distribution of pre-Administration Client Money has been prepared and will now be pursued, twin-tracked with preparations to obtain appropriate UK High Court directions, if required.
- Frankfurt court hearing held on 1 March 2012 on the claim against LBB. Judgment is due on 3 May 2012 but may be subject to potential further appeal.
- Agreement reached with BarCap for the return of c.\$0.2bn of Client Money. Recovery achieved shortly after period end.
- Returned c.£0.1bn of post-Administration Client Money.
- Tested Client Money dividend payment infrastructure.

Focus

The resolution of the determination of entitlements to and quantum of Client Money remains a critical work stream of the Administration.

Our objective is to bring clarity to these complex issues, to facilitate the return of Client Money and to remove this issue as an impediment to a first interim distribution to unsecured creditors.

The focus in the period has been on:

- preparation for and attendance at the UK Supreme Court appeal hearing on pre-Administration Client Money;
- assessing the likely outcomes from the UK Supreme Court judgment;
- preparing the process infrastructure required to make a first interim distribution to Client Money claimants;
- engaging with the creditors to understand better their views on Client Money entitlements; and
- recovery of Client Money from LBB and LBI/BarCap.

Progress

Pre-Administration Client Money

UK Supreme Court pre-Administration Client Money judgment

The UK Supreme Court substantive hearing commenced on 31 October 2011 and concluded on 3 November 2011. Oral submissions were made by GLG Investments plc Sub Fund: European Equity Fund (appellant), CRC Credit Fund Limited (respondent), LBF and LBI (jointly respondents) and the Administrators.

The judgment was handed down on 29 February 2012. Three issues were addressed and these are summarised below.

Issue 1: When does the statutory Client Money trust arise?

The issue in dispute was whether Client Money received from, or for, a client is subject to a statutory trust from the moment of receipt or only from the moment of segregation. Agreeing with the UK High Court and the UK Appeal Court, the UK Supreme Court held that the statutory trust arose on receipt of funds.

This decision confirms that Client Money (if any) held by LBIE outside of its segregated accounts is subject to the terms of the trust and so does not form part of the House Estate.

Issue 2: Do the primary pooling arrangements apply to Client Money in House accounts?

This second issue concerned whether or not the Client Money pool should include not only the segregated Client Money but also all identifiable pre-Administration Client Money held by LBIE in any of its other accounts. Upholding the UK Appeal Court, the UK Supreme Court held that the Client Money pool does include all Client Money in any account of LBIE into which it was paid.

Whilst the decision makes clear that the Administrators must now locate all Client Money held in LBIE's House accounts in order to constitute the pre-Administration Client Money pool, the UK Supreme Court said nothing as to the detailed nature of this exercise.

Issue 3: Is participation in the pool dependent on actual segregation?

This final issue addressed whether claimants (third party clients or Affiliates) are entitled to share in the pool by reference to what should have been segregated (the "claims basis") or by what was in fact segregated (the "contributions basis"). The UK Supreme Court agreed with the UK Appeal Court that the claims basis was the correct approach.

In summary, the UK Supreme Court judgment has provided clarity with regard to the broad principles that are to be applied in determining Client Money entitlement and the constitution of the Client Money pool. It has not addressed the issues of detail and stated that such matters should be addressed by the UK High Court.

The Administrators are committed to pay a dividend to those clients with a Client Money entitlement as soon as practicable. With this objective in mind, we will be taking the following steps.

Short-term next steps and provisional strategy for resolution

In the short time that the UK Supreme Court judgment has been available, we have been able to draw only provisional conclusions as to its impact on the Trust and House Estates. Further work is required to firm up this view but we are able to share our short-term strategy in terms of the prospects for a Client Money distribution and what, if any, further guidance or directions may be required from the UK High Court.

Whilst there are complex issues to resolve in both estates, an interim distribution to unsecured creditors is likely to be achievable prior to a distribution of pre-Administration Client Money. Given the challenges that remain affecting distributions in both estates, we cannot guarantee though that a first interim distribution, even from the House Estate, will be paid before the current year-end. Any material developments that impact the Client Money distribution timeline will be communicated to Client Money claimants in due course.

Client Money entitlement

The Administrators are working to formulate a view on the principles that should be applied to calculate Client Money entitlement. This view is based on the forms of contract used by LBIE and the contents of the UK Supreme Court judgment. A statement of these principles will be published in due course.

The Administrators will then apply these principles on a creditor-by-creditor basis and communicate with Client Money claimants based on this analysis.

We will need to review carefully the response from counterparties as well as make appropriate provision for those which may not respond or those who challenge the Administrators' analysis.

In conjunction with this activity, we will consider whether to make an application to the UK High Court for an order specifying a date by which all claims for Client Money should be lodged ("CM Bar Date").

Once the exercise to agree entitlement with the Client Money claimants has been sufficiently advanced and possibly subject to a CM Bar Date, the Administrators will be looking to make an interim distribution from the Client Money pool.

It is possible that one or more counterparties may take issue with the Administrators' statement of principles and this may lead to further litigation and attendant delay to a return to Client Money claimants. Further guidance will be issued in due course.

Given the impact of the UK Supreme Court judgment and its inclusion of unsegregated Client Money claimants as eligible participants within the Client Money pool, we have sought, as a matter of urgency, confirmation from LBF and LBI as to the quantum and nature of their Client Money claims. In our published statement of assumed facts, an amount of c.\$3bn had been included for these and other Affiliate Client Money claims.

LBF has confirmed that its Client Money claim is c.\$1.4bn and this is in line with our own estimate, although both LBIE and LBF continue to reserve their positions and rights.

As regards LBI, it has very recently informed us that it considers its final Client Money claim will be in the range of c.\$1.2bn to c.\$4.0bn, depending on the outcome of matters which remain under investigation, although it also reserves its position and rights to vary this range.

Tracing

As noted earlier, whilst the UK Supreme Court has provided a certain amount of clarity regarding the broad legal principles, it did not provide guidance on matters of detail. One of the areas where detailed guidance may be required is the process to be applied in Tracing Client Money (or its proceeds) which remains identifiable in accounts which otherwise form part of the House Estate.

In Spring 2011, the Administrators commenced a process to obtain guidance from the UK High Court as to the correct legal principles to be applied when undertaking the Tracing exercise. At the time, the UK High Court expressed sympathy with the Administrators' desire to do everything they reasonably could to progress the Administration. However, the UK High Court was concerned that the UK Supreme Court's eventual judgment might impact the nature of certain of the issues which were to be determined by the Tracing application and ruled that work should be suspended until the UK Supreme Court had handed down its judgment.

The Administrators are reviewing the original application in the light of the UK Supreme Court judgment and other developments in the last 12 months. We anticipate that an application to the UK High Court to seek directions may well be required in due course.

Recoveries

The pre-Administration Client Money pool at 14 March 2012 was c.£0.6bn. This balance will be potentially increased by recoveries from the matters noted below:

- receipts from Tracing work, the scope of which has yet to be defined or performed;
- c.\$0.2bn from BarCap (see below);
- recoveries from LBB, if any;
- recoveries from LBHI arising from LBIE's agreed claim of c.£0.6bn against it; and
- recoveries from Korea and Taiwan.

LBI/BarCap Recovery

As previously reported, LBI and BarCap had agreed that BarCap held certain Client Money due to LBIE.

An agreement was finally signed by the three parties on 8 March 2012 and c.\$0.2bn was recovered on 15 March 2012. A small balance remains under investigation.

LBB

The Administrators are pursuing an action in the German courts to recover c.\$1bn of Client Money lodged with LBB pre-Administration. Having appealed successfully against a decision of the lower court to subordinate the LBIE Client Money claim in favour of non-Affiliate creditors in the LBB estate, the case was reheard on 1 March 2012. We await the judgment due to be handed down on 3 May 2012.

The counterclaim raised by LBB against the above claim has not yet been relisted for a hearing by the German appeal court and remains pending.

Other recoveries

We are pursuing a small number of remaining Client Money balances, principally in Korea and Taiwan. The return of these funds is dependent upon regulatory clearances and the resolution of local court cases.

Post-Administration Client Money recoveries and returns

c.£0.1bn of post-Administration Client Money recoveries was returned in the period, with c.£0.9bn remaining to be returned.

A significant number of legal issues have prevented the return of these funds (e.g. the resolution of the LBI Client Assets positions referred to in Section 8). Certain of these legal barriers were removed during the period. However, approximately two thirds of the post-Administration Client Money held still cannot be returned for one reason or another.

Claims submission and agreement

The Client Money team continues to support other work streams within the Administration to achieve their objectives of agreement of unsecured claims by Street and Client Assets claimants. This has included the analysis of more than 580 clients in relation to pre- and post-Administration Client Money.

Infrastructure

The Client Money infrastructure has been updated and tested during the period in preparation for the payment of a first interim Client Money dividend in due course.

Section 9:

Unsecured creditors

Highlights

- The Administrators continue to make significant progress in reconciling, valuing and determining creditors' claims. During the period:
 - LBIE Determinations totalling c.£1.3bn were provided to 617 counterparties;
 - 247 claims (totalling c.£0.9bn) were formally agreed, with 172 claims (totalling c.£0.3bn) being admitted as unsecured claims against the House Estate; and
 - further LBIE Determinations totalling c.£0.9bn were finalised (but not yet offered) in respect of 229 claimants.
- Consequently, as at 14 March 2012, LBIE Determinations totalling c.£4.2bn have been provided to 1,014 counterparties, with 355 claims (totalling c.£2.6bn) having been agreed.
- Whilst the Administrators have made significant efforts to encourage submission of Proofs of Debt, the level of claims to date remains relatively low compared with the potential unsecured creditor population. Accordingly, this is frustrating the Administrators' ability to determine the total extent of LBIE's unsecured liabilities:
 - as at 14 March 2012, only 2,372 claims had been formally submitted to LBIE (compared with an estimated population of c.5,350 counterparties).
- The current bar date for lodging unsecured claims has been set at 31 December 2012. However, as outlined in Section 4, the Administrators intend to apply to the UK High Court to bring forward this date. Accordingly, the Administrators strongly encourage creditors to submit their claims as soon as possible.

Focus

A key objective of the Administration is the agreement, admittance, reserving as appropriate and subsequent payment of unsecured creditors' claims.

As at 14 March 2012, the Low case estimated value of LBIE's unsecured liabilities was c.£16.3bn. This excludes Affiliates' claims and Client Assets shortfalls, and is after provisions which take account of certain differences between LBIE's assessment of its liabilities and the amounts claimed by counterparties:

Unsecured claimants	No. of cpties	Indicative financial outcome (Low) £bn
Street Creditors	3,215	11.3
Client Assets claimants*	775	4.6
Financial trading counterparties	3,990	15.9
Non-financial trading counterparties	1,363	0.4
Total	5,353	16.3

* This relates solely to estimated unsecured claims from counterparties with Client Assets and excludes additional unsecured claims that might arise from any Client Assets shortfalls.

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

The table also excludes 539 counterparties that, after detailed due diligence, the Administrators have concluded are not creditors (and that have been advised of this). This process is ongoing and is likely to lead to a further reduction in the number of creditors which LBIE reports in due course.

The LBIE valuation shown above is the Low case indicative financial outcome and incorporates LBIE's current view of the valuation as at the termination date (where terminated) or an estimate of the value as at 14 March 2012 in respect of any remaining live positions.

The increase in unsecured liabilities to c.£16.3bn (compared with c.£15.2bn in the Administrators' previous report) is largely due to an increase in provisions which reflect additional claims received in the period in excess of that recorded in LBIE's underlying books and records or where certain material counterparties have indicated an intention to file claims against LBIE. In addition, the balance includes c.£0.6bn of Proofs of Debt filed by counterparties that are currently considered by LBIE to be debtors.

The High case estimated value of LBIE's unsecured liabilities remains unchanged from the last progress report at c.£12.4bn.

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

- **Street Creditors:** progressing agreement of claims under the Consensual Approach, focusing on those creditors with large, complex positions ("Tier 1"), as well as on systemising the agreement of smaller, less complex claims ("Tier 2"); and
- **Client Assets claimants:** adapting the Consensual Approach to deal with unsecured claims made by such counterparties, and commencing the communication of LBIE Determinations to these.

Progress

Proofs of Debt

UK insolvency legislation requires that any creditor wishing to claim against an insolvent estate must submit a statutorily compliant Proof of Debt in order that it can be considered for admittance as an unsecured claim.

During the six months, following a series of initiatives to encourage creditors to submit their claims (particularly in respect of Client Assets claimants), a further 385 Proofs of Debt (totalling c.£1.4bn) have been received.

As at 14 March 2012, the number and value of known submitted claims (excluding those from Affiliates) were as follows:

Unsecured claimants	No. of claimants	Claims £bn
Street Creditors	1,732	8.8
Client Assets claimants	271	2.3
Other third party	369	0.1
Total	2,372	11.2

Consistent with previous reports, the above summary is after an initial review of the claims received by LBIE and the removal of duplicate Proofs of Debt, non-LBIE counterparties and other non-compliant claims.

Given that the overall number of unsecured creditors is estimated to be up to c.5,350, it appears that a significant number of potential creditors are yet to submit their claims.

As previously highlighted, whilst the current bar date for lodging unsecured claims has been set at 31 December 2012, the Administrators are planning to apply to the UK High Court to bring forward this date.

Given this, it is critical that, if creditors wish to participate in the first interim distribution, they submit a compliant Proof of Debt as soon as possible to enable their claim to be assessed.

Importantly, only those creditors who at the time have submitted a compliant Proof of Debt and have an admitted unsecured claim, will be eligible to be paid in the first interim distribution.

LBIE Determinations

In the period, the Administrators have made substantial progress in reconciling and valuing creditors' trading positions, and determining claims under the Consensual Approach.

Key achievements include:

- finalisation of LBIE Determinations for 593 counterparties (totalling c.£1.1bn);
- substantial counterparty engagement resulting in 385 additional Proofs of Debt having been received (including 185 from Client Assets claimants);

- initial due diligence review of over 500 claims, including the underlying termination notices and master agreements, re-mapping mismatched trades, reconciling asset pools to entities and processing agent/principal changes;
- development and implementation of an approach for agreeing unsecured claims of Client Assets claimants, despite the significant uncertainties caused by contingent Client Assets shortfall claims and pending trades at the date of LBIE's Administration;
- extensive counterparty engagement resulting in 617 offers being made under the Consensual Approach (totalling c.£1.3bn); and
- detailed discussions with counterparties resulting in 247 claims being agreed (totalling c.£0.9bn), with 172 claims being admitted as unsecured claims against LBIE and ranking for dividend purposes.

Client Assets claimants

To date, much of the Administrators' focus has been on agreeing Street Creditors' claims under the Consensual Approach. As the number of claims received from Client Assets claimants increases, the Administrators are now turning their attention towards this group of claimants and seeking to agree their claims.

There are, however, a number of commercial and legal issues which uniquely affect Client Assets claimants and which in some cases prevent the Administrators from determining, at this stage, the total amount of their unsecured claim. Such issues include uncertainties around Client Assets shortfalls and whether specific trades involving LBI as settlement agent or counterparty, that were pending at the date of LBIE's insolvency, subsequently settled or failed.

Accordingly, the Administrators have adapted aspects of the Consensual Approach to agree creditors' claims for the portion of their claims unaffected by these issues as an interim step, pending resolution of the position with LBI.

Depending on the extent of the uncertainties, it may not be possible to deal with all Client Assets claimants in this manner, but the Administrators are focused on making progress where possible

to enable as many counterparties as possible to participate in a first interim distribution.

Similar to the approach with Street Creditors, any offer made to Client Assets claimants under the Consensual Approach is entirely optional, with claimants free to accept or reject the LBIE Determination.

Claim Determination Deeds

With increasing attention towards agreeing the unsecured claims of Client Assets claimants, we have spent considerable time in the period adapting the various deed templates to incorporate matters pertinent to this group of creditors.

Recognising counterparties' desire for flexibility, common across all deeds is the ability for creditors to trade agreed claims. To date, LBIE has acknowledged the transfer of 61 claims with agreed LBIE Determinations totalling c.£0.8bn.

Offers to creditors

Under the Consensual Approach, any offer to a creditor is non-negotiable and comprises the issuance of both a deed and a LBIE Determination. Creditors are free to accept or reject the LBIE Determination.

Creditors that choose to reject the LBIE Determination will have their claims reviewed in detail on a bilateral basis at a later date (see below), when any further evidentiary documentation required has been provided in support of their claims and when time allows.

In the six-month period, the Administrators made substantial progress in agreeing creditors' claims. Specifically:

- LBIE Determinations totalling c.£1.2bn and c.£0.1bn were issued to 590 Street Creditors and 15 Client Assets claimants respectively;
- 12 non-financial trading counterparties received LBIE Determinations, with their claims being admitted; and
- 247 creditors accepted LBIE's offer, resulting in an additional c.£0.9bn of claims having been agreed.

Consequently, as at 14 March 2012, the Administrators had made offers to 1,014 creditors (totalling c.£4.2bn), and have agreed 355 claims totalling c.£2.6bn:

Unsecured claimants	Total population*		Offers made*		Claims agreed*	
	No.	£bn	No.	£bn	No.	£bn
Street Creditors	3,215	11.3	981	3.8	329	2.2
Client Assets claimants	775	4.6	21	0.4	14	0.4
Other creditors	1,363	0.4	12	-	12	-
Total	5,353	16.3	1,014	4.2	355	2.6

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

The vast majority (by value) of claims that have been agreed with creditors relate to those where, owing to the uncertainty as to counterparties' Client Money entitlements, the claims have been agreed in quantum but not yet admitted as unsecured claims to rank for dividend purposes.

Increasingly, we have found that creditors are taking a more pragmatic approach as to what might constitute Client Money entitlements, with many counterparties seeking to agree their claims as wholly unsecured and have their LBIE Determination admitted as such.

As at 14 March 2012, of the 355 claims that have been agreed, 181 are admitted unsecured claims (totalling c.£0.7bn) and these all now rank for dividend purposes.

Future strategy to claims agreement

It remains the Administrators' current intention to deal with all eligible counterparties under the Consensual Approach in the first instance, before seeking to agree their claims in any other way (including bilateral negotiation, dispute resolution or litigation).

Although the Administrators have only recently commenced offering LBIE Determinations to Client Assets claimants, for Street Creditors the Administrators consider that the vast majority of initially addressable claims have now been dealt with and attention is now being given to resolving the various legal, commercial or other impediments which have, to date, prevented certain other claims from being progressed. As these impediments are resolved, LBIE Determinations will continue to be offered to creditors.

For those Street Creditors that have received offers under the Consensual Approach, the Administrators acknowledge that a number of counterparties may reject their offer and elect to have their claims reviewed in detail on a bilateral basis.

The Administrators are now able to commence this process for those creditors that formally reject LBIE's offer. The Administrators intend to engage with creditors broadly in the order in which they rejected LBIE's offer, unless there is a particular reason that prevents this. In addition, the Administrators do not currently intend to commence a bilateral agreement process with a creditor until at least 60 days after the initial LBIE Determination has been offered, in order to allow the Administrators to focus first on those creditors who received LBIE Determinations some time ago but did not accept or reject the offer at the time.

Under any such bilateral claims agreement process, in many cases the Administrators expect to require substantial further evidentiary documentation in order to begin the process of determining whether a creditor's claim is compliant. Consequently, creditors should be aware that the time required to agree claims under this approach will be dependent upon the complexity of a counterparty's claim, the level of additional documentation that needs to be provided, and the number of creditors that will eventually request to have their claims dealt with by this process.

In any event, it is highly unlikely that all claims will be agreed before the first unsecured distribution.

Section 10: Statutory and other information

Statutory information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court. Court case number 7942 of 2008.
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	Level 23, 25 Canada Square, London E14 5LQ.
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson (both appointed 15 September 2008), DA Howell (appointed 30 November 2009), and PD Copley and R Downs (both appointed 2 November 2011) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. MJA Jervis and DY Schwarzmann ceased to act on 2 November 2011.
Appointor's name and address:	High Court of Justice, Chancery Division, Companies Court on the application of LBIE's directors.
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration).
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) of Schedule B1 to the Insolvency Act, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Administrators may be done by any one or more of the persons for the time being holding that office.
Details of any extensions for the initial period of appointment:	The UK High Court on 2 November 2011 granted an extension of the Administration to 30 November 2016.
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit route due to material uncertainties highlighted in the report.
Estimated dividend for unsecured creditors:	The Administrators are unable to provide an estimate at this time due to material uncertainties regarding the quantum of asset recoveries and the level of unsecured creditors' claims but hope to be able to make a first interim distribution some time in 2012.
Estimated values of the prescribed part and LBIE's net property:	The estimated value of LBIE's net property is uncertain, but is expected to exceed the maximum threshold for the prescribed part. Accordingly, the value of the prescribed part is estimated at £600,000.
Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:	Such an application is considered unlikely.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking.

Other statutory matters

Changes to the constitution of the Committee

The Committee members as at 15 September 2011 were:

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

During the period, Lehman Brothers Asia Holdings Limited was appointed to the Committee to become its fifth member.

Resignation and replacement of Administrators

On 2 November 2011, the Administrators made an application to the UK High Court and were granted the following order:

- MJA Jervis and DY Schwarzmans resignations as Administrators be accepted; and
- PD Copley and R Downs replace the above as Administrators.

The change of Administrators was instigated for operational efficiency. The change benefits the day-to-day management of LBIE, with both the appointees being more actively involved in critical work streams.

Formal notification of the changes to the Administrators was sent to creditors on 4 November 2011.

Extension of the Administration period

On 2 November 2011, the Administrators also made an extension application to the UK High Court and were granted a further extension to the Administration of five years to 30 November 2016.

Administrators' remuneration

Background

The detailed information regarding the statutory framework for the approval of the Administrators' remuneration and the review process undertaken by the Committee was set out in the Administrators' first progress report.

The Administrators continue to provide the Committee and its Adviser with detailed information relating to their remuneration in accordance with Statement of Insolvency Practice No.9 ("SIP 9") on a quarterly basis. This detail includes hourly costs (by staff, grade, activity and month) and an account of individual work steps performed. This data is separately summarised and alternatively presented in the form of a series of key performance indicators prescribed by the Committee and its Adviser. Further information is provided for time cost forecasts by activity and grade relating to the next quarter and actual performance variances are reported and explained. All of this information is reviewed quarterly by the Committee's Adviser and discussed in some detail with the Administrators. Category 2 disbursement information is provided and reviewed quarterly in the same way. The Adviser participates in all Committee meetings and from time to time convenes his own private meetings with Committee members to discuss Administrators' remuneration matters.

The remuneration information contained in this report is extracted from the Q3 and Q4 2011 data packs, which have been approved by the Committee, and therefore it relates to the six-month period ended 31 December 2011.

Approvals by the Creditors' Committee

The Committee has reviewed and approved all time costs for the period to 31 December 2011, including the deferred amount relating to part of the work performed in 2011 that it had been agreed would be subject to Committee review in early 2012.

The Committee has also approved remuneration arrangements for 2012, which again will require deferral of a significant proportion of the Administrators' time costs incurred in the calendar year until early 2013, in order that the Committee can judge the Administrators' performance against medium-term as well as short-term objectives.

The Committee has been provided with disbursement information principally relating to the six-month period to 31 December 2011 and has approved payment of £1,425,461 of Category 2 disbursements in the period.

Analysis of time costs

In the six months to 31 December 2011, time costs of £71,629,988 have accrued, totalling 229,661 hours at an average hourly rate of £312 (previously £292).

The Administrators' time costs for the second half of 2011 have decreased marginally compared with the first half of 2011, reflecting the fluctuating specialist resource demands of the Administration as matters are progressed and new issues arise, as well as a changing "mix" effect.

Cumulative time costs accrued to 31 December 2011 are c.£470m. Total Administrators' remuneration and disbursements paid to 14 March 2012 are c.£495m.

Additional analysis of Administrators' remuneration

The table below provides an analysis of the Administrators' total hours incurred and associated cost by staff grade, in respect of the period 1 July 2011 to 31 December 2011.

Grade	Period 1 July 2011 to 31 December 2011	
	Hours	£ 000's
Partner	9,570	6,681
Director	13,197	7,615
Senior Manager	33,832	14,703
Manager	67,564	21,491
Senior Associate	74,943	16,148
Associate	30,555	4,992
Total	229,661	71,630

The following table provides an analysis of the total hours incurred and associated costs by activity.

Activity	Period 1 July 2011 to 31 December 2011		
	Hours	£ 000's	
Counterparties	Street	22,064	7,987
	Trust	41,123	11,817
	Affiliates	22,994	7,276
	Valuations	15,277	4,917
	Branches	4,616	1,800
Middle Office	Middle Office	21,672	6,572
Transaction Processing and Control	Transaction Processing and Control	28,256	8,052
COO	Administrators	6,452	3,216
	Chief operating officers	6,152	2,165
	Performance improvement and control	9,756	3,164
	Treasury	6,432	1,804
Functions	Tax	2,675	1,538
	Regulatory and compliance	1,084	291
	Information technology	24,184	5,850
	LBL recharges (see below)	7,774	2,351
Insolvency specific	Forensic investigations	9,150	2,830
Total		229,661	71,630

LBL recharges*	Period 1 July 2011 to 31 December 2011	
	Hours	£ 000's
Employees	1,308	529
Estate accounting	906	261
Group services management	5,560	1,561
Total	7,774	2,351

* Certain services previously provided by LBL are now directly resourced by LBIE.

Appendices

Appendix A:

Glossary of terms

Abbreviation	Term	Definition
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986
Administrators	Joint Administrators	AV Lomas and SA Pearson were appointed as Joint Administrators of LBIE on 15 September 2008. DA Howell was appointed on 30 November 2009. PD Copley and R Downs were appointed on 2 November 2011. All are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales and are partners of PricewaterhouseCoopers LLP
Adviser	Adviser	An adviser retained to assist the Committee in considering the Administrators' remuneration requests
Affiliates	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings Inc.
Affiliate Claims Portal	Affiliate Claims Portal	A secure, structured system for Affiliates to electronically submit details of their claims against LBIE accessible through the CIP
Appeal Court Judgment	Pre-Administration Client Money Appeal Judgment	Judgment handed down by the UK Appeal Court on 2 August 2010 which overturned a previous judgment regarding the composition of the Client Money pool and Client Money claimants
BarCap	Barclays Capital Inc.	Investment banking business of Barclays Bank PLC
BTB	Back-to-Back derivative side letters	Intercompany derivative side-letters which provide hedges to LBIE
Category 2 expenses	Administrators' Category 2 disbursements	Costs that are directly referable to the Administration but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the Administration on a proper and reasonable basis
CIP	Client Information Portal	A secure, structured framework that provides access for counterparties to relevant LBIE sub portals (Affiliate Claims Portal, LBIE Creditors Portal and CRA creditors portal). Access is provided by a unique user name and password only
Citibank	Citibank, N.A.	Subsidiary of Citigroup Inc., a LBIE counterparty with significant business relationships governed by various trading and custody agreements
Claims Determination Deed	Claims Determination Deed	A standardised legal document for agreeing claims under the Consensual Approach
Client Assets	Client Assets	Client securities which LBIE should have held as at 15 September 2008
Client Money	Client Money	Client cash balances held by LBIE as at 15 September 2008 or received thereafter by LBIE and which are in each case subject to the UK FSA's client money rules and/or applicable client money distribution rules
CM Bar Date	Client Money Bar Date	The date by which Client Money claims must be lodged to be eligible for inclusion in a first interim distribution of pre-Administration Client Money

Abbreviation	Term	Definition
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the Insolvency Act 1986
Consensual Approach	Consensual Approach	A framework developed for the expedient resolution of the unsecured claims of financial trading counterparties
COO	Chief Operating Officers	Responsible for managing the operations of the organisation, allocating resources and supporting the other teams within the operating model
CRA	Claim Resolution Agreement	An innovative and practical claim resolution framework which governs the return of Client Assets. The CRA was proposed by the Administrators to clients in November 2009 and was accepted by over 90% of eligible Client Assets claimants
Customer Property	Customer Property as defined in SIPA	A combination of claims to securities and certain cash amounts relating to securities, as defined in SIPA
Distributing Administration	Distributing Administration	Permission granted by the UK High Court in December 2009 for the Administrators to make a distribution to creditors pursuant to Paragraph 65 of Schedule B1 of the Insolvency Act 1986
Extended Liens	Extended Liens	Assertion by certain Affiliate claimants to benefit from the rights conferred on LBIE to assert lien and other security entitlements over securities held by LBIE on behalf of other Affiliates, in order for the Affiliate claimants to recover debts owed to them by other Affiliates
Financial Support Direction	Financial Support Direction	Direction determined by the Pensions Regulator requiring financial support to be put in place for the purpose of maintaining the solvency of a defined benefit scheme in accordance with the Pensions Act 2004
FSA	Financial Services Authority	Regulator of providers of certain financial services in the UK
General Estate	General Estate as defined in SIPA	Claims to a certain pool of assets available to satisfy general non-Customer Property creditors' claims including any potential deficiencies in Customer Property claims
Guarantees	LBHI Guarantees	Various forms of guarantees provided by LBHI relating to, <i>inter alia</i> , contracts and financing transactions, derivative contracts and other payment performance guarantees
HMRC	HM Revenue and Customs	Organisation of the British Government primarily responsible for the collection of taxes
House Customer claim (also referred to as the House claim)	House Customer claim	Element of LBI SIPA Customer claim relating to LBIE House positions
House Estate (also referred to as House)	House Estate	Dealings that relate to LBIE's general unsecured estate
Insolvency Act	Insolvency Act 1986	Statutory legislation that provides the legal platform for matters relating to personal and corporate insolvency in the UK
Insolvency Rules	Insolvency Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK

Abbreviation	Term	Definition
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
LBF	Lehman Brothers Finance S.A. (Switzerland)	Affiliate entity subject to insolvency proceedings in Switzerland
LBHI	Lehman Brothers Holdings Inc.	Ultimate parent of the Lehman group, incorporated in the US and formerly subject to Chapter 11 bankruptcy protection from 15 September 2008. The Plan became effective on 6 March 2012
LBHK	Lehman Brothers Hong Kong	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong: Lehman Brothers Asia Holdings Ltd, Lehman Brothers Commercial Corporation Asia Ltd, Lehman Brothers Asia Capital Company Ltd, Lehman Brothers Securities Asia Ltd, Lehman Brothers Futures Asia Ltd, Lehman Brothers Asia Ltd and Lehman Brothers Nominees (H.K.) Ltd
LBI	Lehman Brothers Inc.	US broker-dealer affiliate entity, incorporated in the US which entered SIPA trusteeship on 19 September 2008
LBI Determination	Letters of Determination	Letters of Determination issued by LBI on 16 September 2010 and subsequent revisions in respect of LBIE's House and Omnibus Customer claims against LBI
LBI Trustee	LBI Trustee	James W. Giddens, of Hughes Hubbard & Reed LLP, Trustee for the SIPA Liquidation of LBI
LBIE (also referred to as the Company)	Lehman Brothers International (Europe) - In Administration	Private unlimited UK subsidiary of LBHI, acting as its main European broker dealer, subject to an administration order dated 15 September 2008
LBIE Creditors Portal	LBIE Creditors Portal, previously referred in earlier progress reports as Claims Portal	A secure, structured system for counterparties to submit details of their unsecured claims against LBIE accessible through the CIP
LBIE Determination	LBIE Determination	Agreement of eligible claims using a value determined by LBIE, derived from LBIE's own valuation methodology
LBJ	Lehman Brothers Japan Inc.	Affiliate entity subject to insolvency proceedings in Japan
LBL	Lehman Brothers Limited	UK service entity for the Lehman Administration Companies. LBL was placed into Administration on 15 September 2008
LBS	Lehman Brothers Securities N.V.	Affiliates subject to insolvency proceedings in Curacao, Kingdom of the Netherlands
LBSF	Lehman Brothers Special Financing Inc.	Affiliate entity subject to insolvency proceedings in the US
Omnibus Customer claim (also referred to as the Omnibus claim)	Omnibus Customer claim	Element of LBI SIPA Customer Property claim relating to LBIE client positions

Abbreviation	Term	Definition
OTC	Over-the-counter	A market in which securities, or other financial products, are traded by direct dealer-to-dealer communications
Over-Claims	Over-Claims	Proprietary claims made for or in respect of securities in an amount which exceeds the amount which appears as the claim entitlement to securities of that type as documented in LBIE's books and records
Plan	Plan of Reorganisation	Document filed by LBHI and its US debtor affiliates formerly in Chapter 11 with the US Bankruptcy Court, proposing an economic solution for creditors designed to achieve resolution of the Chapter 11 proceedings. The Plan was approved on 6 March 2012
Proof of Debt	Proof of Debt or Statement of Claim	A formal document prescribed by the Insolvency Rules 1986 submitted to the Administrators by a creditor wishing to prove their claim. The form is made in writing or electronically under the responsibility of a creditor and signed by an authorised person
RASCALS	Regulation and Administration of Safe Custody and Local Settlement	A series of securities secured financing transactions between LBIE and certain Affiliates as recorded in Lehman books and records
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, <i>inter alia</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
SPV	Special purpose vehicle	A legal entity set up for purposes of the Trust Property return scheme
Street	Street counterparties	Third party counterparties consisting of financial institutions including asset managers, custodians and banks, and non-banking financial institutions including pension funds and corporate entities
Street Creditors	Street Creditors	Unsecured creditors with financial trading claims without Client Assets
Tracing	Tracing	Identification of unsegregated Client Money (or its substitute) within the House Estate
Trust Estate	Trust Estate	Refers to both Client Assets and Client Money
Trust Property	Trust Property	Refers to both Client Assets and Client Money
UK Affiliates	Lehman Administration Companies	UK Lehman entities in Administration
UK Appeal Court	Court of Appeal of England and Wales	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
UK High Court	High Court of England and Wales	Court of England and Wales which deals with all high value and high importance cases, and also has a supervisory jurisdiction over all subordinate courts
UK Supreme Court	Supreme Court of the United Kingdom	This is the court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK

Appendix B:

Receipts and payments: six months to 14 March 2012

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

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 March 2012 £m
Receipts						
Depot securities	1	45	397	330	495	1,081**
Counterparties	2	13	(94)	706	6	390
Client Money for onward distribution	3	2	8	136	18	112
Other income	4	95	6	153	7	206**
Total receipts for the period		155	317	1,325	526	1,789
Payments						
Distribution of Client Money	5	(2)	(8)	(136)	(18)	(112)
Administrators' remuneration	6	(93)	-	-	-	(93)
Affiliate settlement	7	(66)	-	(4)	-	(68)
Payroll and employee costs	8	(52)	-	-	-	(52)
Legal costs	9	(19)	-	(9)	-	(25)
Building and occupancy costs	10	(14)	-	(2)	-	(16)
Other payments	11	(68)	(3)	(93)	(1)	(132)
Total payments for the period		(314)	(11)	(244)	(19)	(498)
Net movement in the period		(159)	306	1,081	507	1,291
Balance at bank as at 14 September 2011 as previously reported		5,140	3,182	3,745	720*	10,892*
Net inter-currency transfers for six-month period to 14 March 2012		1,005	-	71	(1,058)	(8)
Total balances as at 14 March 2012	12	5,986	3,488	4,897	169	12,175
Less: Funds arising with potential third party claims						(1,327)
Total House Estate cash and bonds (see Section 3)						10,848^

* Balances for "Various currencies" and "GBP equivalent" above are translated as at 14 March 2012. Balances were c.£726m and c.£11,002m respectively if translated at 14 September 2011 exchange rates.

** Includes an aggregate amount of c.£284m arising in the period which is potentially subject to Affiliate or other third party claims.

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

Notes to House Estate receipts and payments accounts

General

The transactions within the LBIE estate in the period:

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

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

1. Depot securities – sales and related income

Realisations of c.£1.1bn relate to the disposal or redemption of securities and derived income from depot holdings.

2. Counterparties

There were receipts of c.£0.5bn in the period relating to financing, prime brokerage and OTC derivatives offset by c.£0.1bn of exchange traded derivatives receipts from prior periods that were transferred to depot securities in the period following investigation.

3. Client Money for onward distribution

Under some client agreements, certain Trust Property is transferred from the Trust Estate account to an SPV. Under a separate agreement, funds are transferred from the SPV to the House account. The House makes a separate payment to the client to give value for its Trust Property under the client agreements (see note 5).

4. Other income

Other income includes:

- c.£87m collateral received from Trust Property claimants;
- c.£47m of VAT recovered from HMRC;
- c.£37m of corporation and income tax repayments from HMRC;
- c.£21m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts;

- c.£18m of bank and bond interest received; and
- c.£(4)m of reallocations.

5. Distribution of Client Money

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

6. Administrators' remuneration and expenses

Payment deferral terms, as agreed with the Committee and referred to on page 40 of this report, account for differences between costs incurred and payments made in the period.

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

7. Affiliate settlement

c.£68m payment made in accordance with the settlement agreement with LBHK.

8. Payroll and employee costs

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

9. Legal costs

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

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

10. Building and occupancy costs

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

11. Other payments

Includes the following:

- c.£83m of payments related to settlements with counterparties;
- c.£24m of VAT paid on invoices;
- repayment of c.£21m of recovered or redirected funds which were mistakenly paid (by third parties) into House accounts (see other income); and
- c.£4m of other sundry payments.

12. Investment profile

House Estate	Notes	GBP equivalent £m
Government bonds – short-dated		9,109
Short-term deposit	1	2,829
Interest-bearing accounts		237
Total		12,175

1. Average rate of return for six month ending 14 March 2012 of EUR 0.42%, GBP 0.40% and USD 0.09%.

Cash management and investment policy

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

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

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

Yields are measured against appropriate benchmarks.

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

Instruments allowed in the period

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

Policy for interest-bearing accounts and short-term deposits

Permitted banks must meet four key criteria:

- be headquartered in a sovereign where two out of three long-term ratings from S&P, Moody's and Fitch are AA+ or above, the other being AA or above;
- itself have two out of three long-term ratings from S&P, Moody's and Fitch at AA- or above, the other being A+ or above;
- have a five year CDS price below a specified (prudent) threshold; and
- have a minimum market capitalisation above a specified (prudent) threshold.

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

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

Policy for government bonds

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

Bond portfolios are managed on a day-to-day basis by four independent fund managers, one of which is a company related to Creditors Committee member, Ramius Credit Opportunities Master Fund Limited.

Current investment strategy

Reflecting recent market uncertainty, further monies have been transferred from short-term deposit into short-dated government bonds in the past six months.

This situation is kept under constant review and a proportion of the House Estate is being further diversified into certain high-rated, short-dated, corporate bonds.

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

	Notes	GBP £m	EUR €m	USD \$m	Various currencies £m	Total (GBP equivalent) at 14 March 2012 £m
Receipts						
Redemptions, coupons, dividends and investment income		27	25	76	32	127
Funds received in error		-	-	-	1	1
Total receipts for the period		27	25	76	33	128
Payments						
Transfers to House	1	(9)	(21)	(120)	(11)	(113)
Transfers to clients		(8)	(14)	(40)	(24)	(69)
Payment of funds received in error		-	-	-	(1)	(1)
Total payments for the period		(17)	(35)	(160)	(36)	(183)
Net movement in the period		10	(10)	(84)	(3)	(55)
Balance at bank as at 14 September 2011 as previously reported		102	315	1,327	385*	1,595*
Total balances as at 14 March 2012	2	112	305	1,243	382	1,540
Comprising:						
Pre-Administration Client Money balance		9	25	907	7	615
Post-Administration Client Money balance		103	280	336	375	925
Total balances as at 14 March 2012		112	305	1,243	382	1,540

* Balances for "Various currencies" and "GBP equivalent" above are translated as at 14 March 2012. Balances were £394m and £1,611m respectively if translated at 14 September 2011 exchange rates.

1. Transfers to House

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

2. Investment profile

Trust Estate	GBP equivalent £m
Short-term deposit	1,344
Interest-bearing accounts	196
Total	1,540*

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

Cash management and investment policy for client funds

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

Client Money is not eligible for investment in government bonds.

Appendix C:

Court update

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

Q4 2011	UK High Court	BTB pre-trial review
		Extension of Administration and substitution of Administrators hearing
		Extended Liens application directions hearing
	UK Appeal Court	RASCALS appeal substantive hearing
		ISDA s2(a)(iii) derivatives appeal substantive hearing
		Judgment on pension fund deficit appeal
	UK Supreme Court	Client Money substantive hearing
	US Bankruptcy Court	LBHI proposal for confirmation hearing of Plan
		Objection deadline for Omnibus Customer claim determination
	Luxembourg Court	Interim hearing re LBIE claim
Q1 2012	UK High Court	BTB trial
	UK Appeal Court	ISDA section 2(a)(iii) judgment
	UK Supreme Court	Client Money judgment
	German Court	LBB Client Money claim hearing

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

Q2 2012	UK High Court	Client Money (Q2 and subsequently) - (i) consider future legal action in light of UK Supreme Court judgment and/ or (ii) re-launch of Tracing application
		BTB judgment expected
		Extended Liens application pre-trial review
Q3 2012	UK High Court	Extended Liens trial
2013	UK Supreme Court	Pension fund deficit appeal
	US Bankruptcy Court	House and Omnibus Customer claim substantive hearings on LBI

Note that the above tables exclude certain Street counterparty actual or potential litigation which is referred to in Section 4.

Appendix D:

LBIE contact details

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

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

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