
*LBIE – Joint Administrators’ update to MFA members
New York*

17 November 2011

Agenda

Presenters

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Agenda

1. Review of key matters from sixth Progress Report
2. Developments since 15 September 2011
3. LBI
4. Key priorities in 2012
5. Q&A

Review of key matters from sixth Progress Report

Key Highlights

Overview

Highlights

- Ongoing and material progress on House asset recoveries with gross realisations to date of £12.6bn.
- Significant progress achieved from the Consensual Approach to unsecured creditor claims agreement - £1.7bn agreed to date.
- Route to distribution during 2012 remains ambitious but a realistic target. Client Money remains the principal impediment.
- LBIE's operating model remains in strong shape, fit for the medium term needs of the administration and focussed around delivering a first interim distribution.
- Litigation (across many jurisdictions) on many issues remains a significant aspect of the administration but in the last six months we have settled with two affiliate groups on a consensual basis and some evidence of third parties being prepared to explore commercial solutions.
- Progression of the \$1 billion issues remains a critical target for objective setting and the focus of resource against the wider imperative of making a distribution.
- Regular, frequent and substantive engagement from the Creditors' Committee has been very valuable.

Review of key matters from sixth Progress Report

Key Highlights

Overview

- Indicative Financial Outcome has been further refined but remains subject to many material uncertainties including the impact of Client Money.
- There remains material upside and downside sensitivity to the published figures, particularly arising from LBI and other Affiliate relationships.
- There are three particularly significant issues (discussed in more detail later in this presentation) that will impact the eventual outcome for creditors:
 - **LBI** – comprising the amount ultimately recovered for LBIE clients in respect of the Omnibus claim and the amount finally admitted in the LBI and LBIE estates as unsecured and priority claims.
 - **Other Affiliates** – concerning the Affiliates that LBIE had significant interactions with pre-Admin and with which there remain major unresolved issues, including RASCALS, Back-to-back derivative side letters and Extended liens.
 - **Client Money** – the Supreme Court hearing concluded on 3 November and judgment may not be received until March / April 2012.

Review of key matters from sixth Progress Report

Indicative Financial Outcome

House Estate (read in conjunction with notes in Progress Report)

	Low £bn	High £bn
Cash deposits and short-dated government bonds (note 2)	9.3	9.3
Client Money impact	n/a	n/a
Projected future recoveries		
Third party debtors	0.1	0.5
Affiliates	-	2.2
House depot securities	0.5	1.4
Client Assets claimants	0.1	0.3
Other	-	0.1
Total projected recoveries	10.0	13.8
Priority claimants	(1.0)	(0.3)
Future estimated costs	(1.5)	(1.0)
Funds available for unsecured creditors	7.5	12.5

Review of key matters from sixth Progress Report

Indicative Financial Outcome

Creditors

	Low £bn	High £bn
Unsecured creditors	(15.2)	(12.4)
Client Assets claimant shortfalls	(2.5)	(1.2)
Affiliates	(33.4)	(1.4)
Client Money impact	n/a	n/a
Total unsecured claims	(51.1)	(15.0)
Subordinated debt	(1.2)	(1.2)
Total creditors	(52.3)	(16.2)

Review of key matters from sixth Progress Report

Indicative Financial Outcome – Affiliate impact

Affiliate impact

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

Review of key matters from sixth Progress Report

Affiliates

Overview

- Agreement in principle reached with LBHI on comprehensive settlement plan. Full agreement signed on 24 October 2011 and now awaiting US bankruptcy court approval as part of LBHI's plan. Objection raised by one party around the settlement.
- Settlement reached with LBHK with regard to substantially all matters.
- Negotiations continue with LBF, LBS, LBB and LBJ.
- Significant work to progress the litigation of LB Lux claim rejection. Strategy may take a new direction if LBHI settlement is approved.
- Legal matters with respect to RASCALS, Back-to-back derivative side letters and Extended Liens substantially progressed.

Review of key matters from sixth Progress Report

Affiliates

LBF

- All positions have been materially reconciled and the focus has moved to valuation issues.
- The frequency of contact with LBF has increased significantly within the period.
- LBF is a party to the UK Supreme Court pre-Administration Client Money Appeal, RASCALS, Extended Liens and BTB applications.

Review of key matters from sixth Progress Report

Affiliates

LBB & LBS

LBB

- Engagement with LBB continues with a view to LBB's acceptance of LBIE's outbound claims and eliminating the significant inbound LBB claims of c.£9.2bn.
- The relationship is complicated by the existence of potentially material balances between LBB and certain other UK Affiliates.
- Rejection of its claim is a likely outcome in the absence of a consensual resolution.

LBS

- LBS has filed a c.£6.7bn claim which represents the full nominal value of certain certificates and warrants issued by LBS outstanding at the date of Administration and principally held by LBIE as custodian.
- A basis for settlement is under review, which should enable substantially the whole of the claim to be eliminated. In the alternative, action is likely to be taken to reject this claim.

Review of key matters from sixth Progress Report

Affiliates

Legal Matters

RASCALS

- 2010 UK High Court ruling that beneficial ownership in RASCALS securities transferred to LBIE.
- Judgment was appealed by LBF and two LBHK entities. Formal settlement reached with LBHK resulting in their withdrawal from these proceedings.
- UK Appeal Court hearing was heard in October 2011 and judgment is expected before the year end.

BTB (LBF specific litigation)

- LBIE filed a UK High Court application for directions and continued to develop its legal arguments.
- A substantive hearing has been delayed as a result of UK High Court scheduling issues. A pre-trial review is expected in the UK High Court by the end of 2011.

Review of key matters from sixth Progress Report

Affiliates

Legal Matters

Extended Liens

- LBIE actively continues to pursue the possibility of a consensual and comprehensive mutual waiver of Extended Liens with relevant Affiliates.
- UK High Court directions hearing ruled that, subject to certain conditions, LBIE may now deal with securities where the Administrators are not aware of any agreements containing provisions which may give rise to an extended lien.
- Further directions hearing as regards securities where Administrators are aware of relevant agreements is expected to be listed in early 2012, with a substantive hearing to take place later in 2012.

Review of key matters from sixth Progress Report

House Assets

Overview

- Settlement of £2bn Citibank dispute – avoids litigation in numerous jurisdictions. £1.3bn of cash and securities returned to LBIE post-deal (in addition to £0.2bn from pre-deal)
- £0.8bn of securities sold in the period, plus a further £0.3bn recovered from other debtors. Total cash realised from House assets to date is c.£12.6bn.
- Majority of house cash invested in short-dated government bonds and short term deposits.

Review of key matters from sixth Progress Report

House Assets

House debtors

- c£7bn has been recovered from third party debtors to date. Indicative high outcome of a further c.£0.5bn.
- Relatively prudent approach – future recoveries principally represent one counterparty.
- Future recoveries exclude potential upside from litigation and other disputes (over £1bn of incremental recoveries conceivable).

Review of key matters from sixth Progress Report

House Assets

Securities

- Objective remains an orderly realisation of available securities.
- £0.5bn available for sale – reduced post-period and under constant, active management.
- £2.3bn subject to client and Affiliate disputes and £0.2bn residual holding at Citibank.
- £3.7bn held by Affiliates, primarily LBI and LBHK.

Review of key matters from sixth Progress Report

House Assets

Investments

- House cash is invested in interest-bearing accounts, short-term deposits and government bonds.
- Reflecting recent market developments, significant funds have been transferred into short-dated government debt.

	GBP Equivalent
House Estate at 14 September 2011	£m
Government bonds – shortdated	6,184
Short-term deposit	4,400
Interest-bearing accounts	418
Total	11,002

- Principally hold three currencies (USD, EUR, GBP). Move to GBP halted pending resolution of Client Money uncertainty.
- Relatively cautious approach – close review of counterparty credit risk.
- For bonds, we invest in short-dated debt issued by the US, Germany, France, the Netherlands and the UK.

Review of key matters from sixth Progress Report

Creditors

Overview

Client Asset claimants

- Total Client Assets returns since the beginning of the Administration are now c.£13bn, comprising over 3,500 individual holdings.
- Client overclaims have been reduced from c.£7.3bn to £3.4bn.

Unsecured creditors

- Under the Consensual Approach on unsecured claims determinations of c£1.5bn have been issued to 309 counterparties. 85 claims totalling c£1.0bn have been formally agreed.
- 1,987 claims have been formally submitted compared from an estimated population of c5,800.

Client Money

- Client Money remains the principal impediment to an unsecured dividend.
- Supreme Court appeal held in October/November 2011. Judgment expected in up to six months.

Review of key matters from sixth Progress Report

Creditors

Client Assets

- Profile of asset returns has shifted from high value to greater volume reflecting the composition of the remaining population.
- Client assets portfolio amounted to c.£3.6bn at 14 September 2011, of which £1.2bn were within Administrator's control and £2.4bn were controlled by LBI, LBHK and others.
- Return of securities previously held by LBJ commenced in the period with 640 lines returned.
- c.£7.3bn of overclaims were received by the administration. To date this has been reduced through agreement with Counterparties to c.£3.4bn.

Review of key matters from sixth Progress Report

Creditors

Unsecured creditors

- Continued with the Consensual Approach to claims agreement. Made a further 309 offers (£1.5bn) and agreed a further 85 claims (£1bn) in the period.
- Vibrant secondary market in LBIE claims has materially assisted level of creditor engagement.

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

Above analysis excludes affiliates and non-financial trading creditors.

Review of key matters from sixth Progress Report

Creditors

Unsecured creditors

Proofs of debt

- To be eligible to receive a LBIE Determination, the Administrators require that a creditor submits a Proof of Debt which is compliant with UK insolvency legislation. To date 1,987 Proofs of Debt have been submitted; LBIE's books and records suggest there may be up to 5,800 unsecured claims.

Strategy for 2012

- Intention is to make a Consensual Approach offer to all creditors who have so far filed a compliant claim before starting bilateral claims negotiation.
- Highly unlikely that bilateral negotiations will have concluded by the time the first dividend is payable.
- Commenced applying Consensual Approach to the unsecured element of trust claims where possible. Seeking to agree known elements of claims, and carve out contingent asset shortfalls to be dealt with later.
- Preparing for litigation where claims are not compliant (eg: "triangular" set-off)

Review of key matters from sixth Progress Report

Creditors

Client Money

Pre Administration Client Money

- Principal impediment to an unsecured dividend. What is Client Money?
- Tracing application to the UK High Court launched seeking directions on the legal tests to be applied, in order to identify and trace pre-Administration Client Money. Application adjourned by the UK High Court until after the UK Supreme Court hearing.
- Supreme Court hearing held in October/November 2011; judgement will take up to six months.
- Frankfurt court rejected LBIE's claim for return of c.\$1bn of client money from LBB. At the appeal hearing in June 2011 the appeal court has referred the matter back to the Frankfurt court for re-consideration in January 2012.

Post Administration Client Money

- Ongoing review of c.£1bn of post- administration Client Money held. Addressing complex legal and commercial issues to expedite return of cash held to trust asset claimants and/or the house estate (say, where the claimant is a net debtor).

Developments since 15 September 2011

Developments since 15 September 2011

LBHI

- LBHI and its US debtor affiliates in Chapter 11 filed their third amended Plan and disclosure statement in September 2011 and the confirmation hearing is scheduled for December 2012.
- LBIE signed a settlement agreement with LBHI on the basis of the Plan on 24 October 2011.
- The settlement agreement agrees:
 - net claims into LBHI and its US debtor affiliates in Chapter 11 of c.\$2bn;
 - claims into LBIE by LBHI and its US debtor affiliates in Chapter 11 of c.\$100m; and
 - a sharing of any distributions from LB Lux as between LBHI (45%) and LBIE (55%).
 - exclusion of certain specific claims, to be agreed in the normal course.
- Objection raised by one party on aspects of the LBIE/LBHI settlement.

Developments since 15 September 2011

LBHK

- Negotiations with seven LBHK affiliates culminated in agreements signed with LBIE on 6 October 2011.
- These agreements provide for sundry assets retentions and returns and claim agreement between the entities plus an asset claim of c.£700m by LBIE against LBSAL.
- These agreements resulted in LBHK withdrawing from the RASCALS proceedings leaving LBF as the sole respondent.
- Asset returns will be delayed pending resolution of Extended Liens and other matters

Developments since 15 September 2011

Agricultural Bank of China

- Amount of c\$0.8bn owing to LBIE and a trust client from ABC in respect of a Qualified Foreign Institutional Investor investment
- Following intensive negotiations \$0.7bn has been returned to LBIE by ABC over the course of the last month. Pursuing remaining balance.

LBI

Executive Summary

Overview

- The prompt resolution of intercompany and Omnibus claims between LBIE and LBI is of critical importance to both Estates
- LBIE continues to explore opportunities for consensual resolution of its claims, but with varying level of engagement from LBI
- During the 6 month period Objections were filed against the Trustee's Determinations for both the House and Omnibus claims
- Given the hugely complex nature of the relationship between LBIE and LBI and the stated desire of both office holders to pay interim dividends, we believe that there must be opportunities to explore commercial settlement between the two estates.

LBI

Executive Summary

Overview

	LBIE Sept 2010 claim \$bn	Claim at objection \$bn	Trial date and status	Trustee's position
House	13.8	8.9 Aug 2011	Jan 2013 – Position statements filed and discovery commenced	Claim denied Customer Status and largely reclassified as General Unsecured; UBS O'Connor component denied outright
Omni	16.3	15.1 Oct 2011	Not yet set – scheduling order to be agreed or determined by court	Determined at up to \$8.3bn, with significant conditions that could reduce this substantially

- Various protective items conditionally withdrawn at objection.
- \$3.9bn of Over-Claims made by LBIE clients were included in Omnibus claim.
- House claim is now subject to a scheduling order and Omnibus claim is in the process of having its order negotiated.

LBI

Omnibus Claim

Objection

- LBI issued a determination in September 2010 admitting the LBIE Omnibus claim in respect of 5,059 securities valued by LBI at c.\$6.2bn.
- Following further reconciliation activity a revised determination was issued by the LBI Trustee in May 2011 for 5,611 securities valued by LBI at c.\$6.1bn. The Trustee also issued a cash determination for c\$2.2bn. Significant caveats were attached to both of these determinations.
- Five significant issues remain with the LBI determinations:
 1. the mix of securities and cash in the revised LBI determination differs materially from the LBIE calculation and the amounts asserted by the underlying LBIE clients;
 2. conditions imposed in the LBI determinations render significant portions unusable;
 3. Elements of the Omnibus claim were erroneously time-barred by LBI

LBI

Omnibus Claim

Objection

4. the valuation of individual security lines has not been provided by LBI and represents a further material uncertainty that may delay eventual client agreement; and
5. the LBI determination is silent as to post petition income and corporate actions.

LBI

Omnibus Claim

Client Statements

- Receipt of the cash determination, together with the revised securities determination, has allowed LBIE to compile new client statements which estimate LBI securities and cash positions.
- These Client Statements are based on actual settlement information provided by LBI
- The statements show LBIE's calculation of client's positions and differ in many cases from the Trustee's aggregate Omnibus Determination
- The statements for many clients have been issued in the last week together with detailed accompanying guidance notes and supporting schedules.
- Client feedback is requested and will be an essential step towards any eventual agreement with LBI.

LBI

Omnibus Claim

Direct Claims

- A large number of LBIE clients have made claims directly against LBI
- In many cases these claims appear to be duplicative to those also made against LBIE. In many instances we believe these claims were made as a purely protective measure.
- To facilitate an orderly and efficient resolution of the LBI estate we would expect these claims to be withdrawn, once the Omnibus claim is successfully resolved.
- LBIE has lobbied LBI to engage in a 3-way communication with the LBIE clients involved, to better understand the primary drivers for these duplicative claims. In parallel LBIE is developing a potential tri-party agreement that could formalize a conditional retraction of direct claims.

LBI

House Estate

Outbound Claim

- LBI issued an initial determination in September 2010 denying LBIE's House claim of having Customer Property status and largely reclassifying the claim as a general unsecured claim.
- LBIE has provided further information to LBI.
- LBI did not revise its determination and as advised in our web update of 2 August 2011, LBIE filed an Objection.
- The hearing is expected in early 2013.
- LBI issued a Position Paper in response to LBIE's objection setting out the rationale for rejection. LBIE has responded to that Position Paper and pre-trial discovery is underway.

LBI

House Estate

Inbound Claim

- In June 2011, LBI submitted a significantly increased draft claim of c.\$15.9bn against LBIE.
- A material element of the amount is claimed to be a Client Money entitlement; although LBI is yet to formally assert a Client Money claim.
- Reconciliation work on the elements of the claim is in progress but is subject to further information to be provided by LBI.
- The Administrators remain of the view that there continues to be an overall net balance due to LBIE from LBI. This assessment remains under constant review.

LBI

Other LBI issues

Asset Returns and Valuations

- The LBI Trustee has not provided any confirmation that the underlying assets within the Omnibus claim remain under the control of LBI.
- SIPA provides for the return of securities or cash in lieu of the securities if the return of the original securities is impracticable. It is not clear what degree of discretion the Trustee may have to liquidate the portfolio and return cash instead of securities.
- Should LBI return cash or alternative securities in lieu, the valuation of individual security entitlements will be critical to agreeing the overall claim.
- LBIE has completed its own initial valuation exercise for all the securities included in the Omnibus claim and has asked the Trustee to engage in a similar exercise so as to avoid unnecessary future delay.

LBI

Other LBI issues

LBI General Creditors

- LBI has denied the LBIE House claim Customer status and largely reclassified it as a general unsecured claim.
- The sixth interim progress report from LBI confirms that when “*....the Trustee has reason to believe that there will be a meaningful distribution to general creditors, he will begin the process of reviewing general unsecured claims in greater detail and determining the validity and actual allowed amounts of secured, administrative and priority claims.*”

Key priorities in 2012

Key priorities in 2012

Route to distribution

Route to distribution

- Core strategy is to pay an unsecured dividend in 2012. 3 main areas of focus to make that happen.

Creditor claims agreement

- Objective is to distribute to as many creditors as possible:
 - Tier 1/Tier 2 – aim is to issue Consensual Approach offers to all creditors with compliant claims
 - Client Asset claimants – agree what we can now, ahead of full information on asset shortfalls from LBI
 - Non-financial trading creditors – process underway to assess compliance of claims
 - Everyone else who has claimed – communicate why no eligible for a dividend at this stage (eg – we see the claimant as a receivable)
- Only creditors with filed proofs of debt and admitted claims will qualify for a dividend.

Key priorities in 2012

Route to distribution

Route to distribution

Client Money

- Remains the principal impediment to a dividend – considerable uncertainty as to the extent of Client Money entitlements and asset tracing.
- Planning underway for various potential outcomes to the Supreme Court, but likely to require more litigation if a commercial route cannot be found.
- Essential to size a reserve for potential Client Money from the unsecured estate before a dividend is payable.

Affiliate claims

- Currently claims of £29bn from affiliates (compared with £10bn from non-affiliate creditors so far).
- Would be a material reserve required if we were to pay a dividend with these claims still in place.
- Much of this is over-claimed in our view – we are working with affiliates to reduce the amounts claimed, but this may require litigation.

Questions

AV Lomas, SA Pearson, DA Howell, PD Copley and R Downs were appointed as Joint Administrators of Lehman Brothers International (Europe) to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers Limited, Lehman Brothers Holdings PLC, LB UK RE Holdings Limited, Mable Commercial Funding Limited, Storm Funding Limited, Lehman Brothers Europe Limited, Lehman Brothers UK Holdings Limited, LB SF No.1, LB UK Financing Ltd, Cherry Tree Mortgages Limited, Lehman Brothers Lease & Finance NO. 1 Limited, Monaco NPL (No 1) Limited, Zestdew Limited, Lehman Commercial Mortgage Conduit Limited, LB RE Financing No. 3 Limited, Lehman Brothers (PTG) Limited, Eldon Street Holdings Limited, LB Holdings Intermediate 2 Limited and Thayer Properties Ltd to manage their affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis, DA Howell, PD Copley and R Downs are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.