
Lehman Brothers International (Europe) – In Administration

Joint Administrators' nineteenth
progress report, for the period from
15 September 2017 to 14 March 2018

10 April 2018

Important notice

Status of Administration

A Surplus has arisen in the Administration and rights to payment from that Surplus have been the subject of the ongoing Waterfall court proceedings.

A Scheme of Arrangement (the “Surplus Scheme”) is being proposed by LBIE to provide a mechanism to distribute the Surplus and to settle the Waterfall proceedings. Pending its formal approval, this report assumes that the Surplus Scheme will be duly approved.

Size of the Surplus

The precise amount of Surplus funds that will be available in due course still remains uncertain. Due to commercial sensitivity, confidentiality and/or legal privilege, we are unable to provide detailed commentary on a small number of issues which will impact this.

Claims against the Surplus

We reserve all rights concerning the relevance and calculation of all claims against the LBIE estate that might eventually share in the Surplus. If the Surplus Scheme does not proceed, no conclusion should be drawn or inferred from this report as to the way in which such claims will eventually be assessed or as to the allocation of the illustrative Surplus entitlements.

Waterfall proceedings – LBIE’s view

No inference should be taken or assumption made from the matters included in this report as to a view, conclusion or belief held by the Administrators with regard to the Waterfall proceedings.

Reliance on data

We caution creditors against using data in this report as a basis for estimating the value of their claims or their likely eventual entitlement to payment from the Surplus under the Surplus Scheme or otherwise. LBIE, the Administrators, their firm, its members, partners, staff and advisers accept no liability to any party for any reliance placed upon this report.

With regard to the Surplus Scheme creditors should refer to the Practice Statement Letter and subsequent Surplus Scheme documents, once issued, and not this report when assessing its merits.

Rights against third parties

LBIE also expressly reserves all of its rights against third parties on all matters and no conclusion should be drawn by third parties as to LBIE’s position or legal arguments on any such matters from references made in this report.

Currency risk

Whilst amounts included in this report are primarily stated in sterling, certain elements of LBIE’s assets continue to be denominated in currencies other than sterling.

Rounding

The figures within the report are rounded to the nearest £1 million.

Definitions

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

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Section 1: Introduction

Introduction

This report has been prepared by the Administrators of Lehman Brothers International (Europe) in accordance with Rule 18.3 of the Insolvency Rules.

This is the nineteenth such formal update to unsecured creditors and it provides details of progress made in the 6-month period from 15 September 2017 to 14 March 2018. The statutory receipts and payments accounts for the same period are attached at Appendix A.

Wherever possible, we have sought not to duplicate information disclosed to creditors in previous updates and reports. Copies of previous progress reports and other important announcements can be found at www.pwc.co.uk/lehman.

Creditors who do not have intimate knowledge of matters being dealt with in the Administration by virtue of involvement in the Waterfall proceedings, and who wish to better understand these matters, are advised in the first instance to review our previous progress reports and other materials contained on the LBIE website where a significant amount of information has been posted for the benefit of all creditors.

Scheme of Arrangement

The Surplus Scheme is being proposed by LBIE to provide a mechanism to distribute the Surplus and to settle the Waterfall proceedings. A Practice Statement Letter is expected to be sent to creditors during April, which will provide certain details regarding the terms of the Surplus Scheme. Further documents will be made available in due course regarding the Surplus Scheme including an explanatory statement which will be sent to all known creditors and will be made available on the LBIE website. These documents will set out considerable detail concerning the background to the Surplus Scheme, the status of the various Waterfall proceedings and the way the Surplus Scheme will operate. This detail is therefore not set out in this progress report.

Financial illustrations in this report with regard to the Surplus have been prepared on the assumption that the Surplus Scheme will be approved and implemented in due course.

Consistent with previous years we will host a webinar with creditors. The focus will be on explaining the Surplus Scheme. Its date is yet to be confirmed, however, this will be at a convenient point after the Surplus Scheme's launch, and is likely to be during May 2018. Further details will be posted on LBIE's website as soon as they are available.

Objective of the Administration

The Administrators continue to pursue the statutory objective and specific aims as set out in previous reports, which are summarised at Appendix C.

Creditors' Committee

We continue to meet with Committee members to review progress and consult on major issues. The members continue to be assisted by an Adviser in approving the Administrators' fees and expenses requests and by two independent observers.

We remain grateful to all the participants of the Committee meetings for their continuing support of the Administration. Details of the current Committee members are listed in Appendix C.

If the Surplus Scheme is approved and implemented, the Committee will come to an end when its members receive their final entitlements from the Surplus, ceasing thereafter to be creditors. It will be replaced at that point by a new committee constituted under the terms of the Surplus Scheme with powers and duties defined therein (including with respect to agreement of the Administrators' remuneration).

Future report and updates

The next formal progress report to continuing creditors will be in approximately 6 months' time and will be posted to the LBIE website on or before 14 October 2018.

In order to minimise the costs associated with statutory reporting we have issued a general website notice which is attached at Appendix E. This means that all future statutory reports and notices to creditors (except where required by the Insolvency Rules or under the Surplus Scheme) will be published on the LBIE website. Physical copies of future reports will only be sent to creditors who specifically request them in accordance with the notice.

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

Signed:



AV Lomas

Joint Administrator

Lehman Brothers International (Europe) - In Administration

Section 2:

Executive summary

Aims and priorities

The Administrators continue to follow the same aims and priorities for the Administration:

LBIE Surplus estate

To resolve disputes as to entitlements to the eventual Surplus through consensual agreement or, failing that, through the Waterfall and other legal proceedings.

To facilitate a distribution of all or part of the Surplus funds either through an interim distribution subject to agreement with creditors, or at the end of the Waterfall and other related proceedings.

To maintain appropriate investment policies for LBIE's realised Surplus pending distribution.

LBIE 100p estate

To realise all remaining House Estate assets and pay outstanding unsecured claims and Administration expenses in order to determine the eventual quantum of the Surplus by:

- recovering remaining amounts owing;
- realising the value of remaining House securities;
- agreeing and admitting the small number of pending Senior and subordinated claims;
- managing out and, where appropriate, releasing provisions and indemnities; and
- winding down LBIE's operation.

LBIE Trust Estate

To settle outstanding CME issues (in particular BarCap's entitlement) in the Client Money estate and transfer residual funds to the House Estate.

To return remaining client securities after resolution of related House debtor litigation.

LBIE costs

To efficiently manage ongoing Administration costs.

Consensual resolution initiative – the Surplus Scheme

During the Reporting period the Administrators continued to explore consensual options with the key stakeholders, including Wentworth and the SCG, identifying areas of agreement or possible compromise. Following receipt of the decision of the UK Appeal Court on the Waterfall II A and Waterfall II B proceedings in October 2017, further progress was achieved, leading to the signing of a Lock-Up Agreement between LBIE, Wentworth and the SCG on 22 December 2017. This legally binding agreement provided the outline for the Surplus Scheme as a consensual settlement, and committed the parties to vote for the Surplus Scheme, once launched.

In line with the Lock-Up Agreement, the Administrators have drafted proposals for a Scheme of Arrangement as a mechanism to settle the Waterfall proceedings to define the entitlements to the Surplus and to distribute Post-Administration Interest entitlements to creditors (the "Surplus Scheme"). The Surplus Scheme is designed to distribute entitlements calculated in accordance with current court rulings from the Waterfall proceedings in a quick and efficient manner. Details of the Surplus Scheme are set out in the Practice Statement Letter that is expected to be sent to creditors during April. Further detail regarding the background to and terms of the Surplus Scheme will be circulated to creditors and made available on the LBIE website due course.

For the Surplus Scheme to become effective, it requires: (i) at least 75% by value and a majority in number of the creditors in each of the two creditor classes expected to be constituted for the purpose of considering and voting on the Surplus Scheme; and (ii) sanction by the UK High Court. Unless stated otherwise, the future estimates and illustrations included in this report are prepared on the assumption that the proposed Surplus Scheme is approved and implemented in due course.

Surplus Scheme – distribution of Post-Administration Interest

If the Surplus Scheme becomes effective, the Administrators will be required to make a distribution of Post-Administration Interest to admitted Senior creditors from the available funds, after reserving for matters such as pending Senior claims and priority claims. If there are sufficient funds to pay Post-Administration Interest to the two classes of Senior creditors in full, a partial distribution may also be made to the Subordinated Creditor in respect of the Subordinated Debt.

As set out in section 3 of this report, we estimate (based on certain assumptions) that there should be sufficient funds currently available to meet the full Post-Administration Interest entitlements on admitted Senior claims under the Surplus Scheme. However, there is the possibility of new claims being received before the Surplus Scheme becomes effective, which could impact the timing and quantum of anticipated payments under the Surplus Scheme.

Waterfall proceedings

Waterfall II appeals

Tranches A & B – decision of the UK Appeal Court

The UK Appeal Court handed down its judgment on 24 October 2017 dismissing all the appeals. This judgment confirmed that the rule in *Bower v Marris* does not apply to the payment of dividends in administrations; dividends paid in the Administration are first applied in paying down the principal debt until it is paid in full. Any Surplus is then applied in paying Post-Administration Interest that accrued from the date of Administration whilst the debt was partially or fully outstanding.

Following the handing down of the judgment, an application was made by parties to the proceedings for permission to appeal certain of the decisions (including the key *Bower v Marris* decision) to the UK Supreme Court. At present, the UK Supreme Court has deferred its decision on the appeal applications until 30 April 2018 pending further developments in respect of the Surplus Scheme. If the Surplus Scheme is approved, the litigation will be settled and the appeal applications withdrawn.

Tranche C

The UK Appeal Court hearing of Waterfall II C is scheduled for July 2018. If the Surplus Scheme becomes effective, this litigation will also be settled and procedural steps will be taken to end the litigation.

Alternatively, if the hearing proceeds, the UK Appeal Court's judgment may affect the assessment of the potential incidence and quantum of cost of funding higher than the judgment rate of 8% simple p.a., which could give rise to additional Post-Administration Interest entitlements.

LBIE 100p estate

The Administrators' updated indicative financial outcome Low and High case scenarios indicate a potential range of Surplus outcomes of between c.£7.40bn and c.£8.32bn (previously c.£7.07bn and c.£8.10bn, respectively, on a comparable basis).

The indicative financial outcome assumes that the Surplus Scheme will be approved and implemented in due course. On this basis, the future costs of the Administration are significantly lower than in our previous estimates. This is because the Waterfall proceedings are assumed to be settled leading to lower legal and litigation support costs and it is assumed that the Administration will end in 2020, some two years earlier than previously forecast, leading to lower staff, infrastructure and Administrators' costs. This impacts the outcome in both the High and Low cases by c.£117m.

In addition to the reduction in estimated future costs, there have been releases of priority claims provisions for post-Administration indemnities and tax, an improvement in the expected receivables from MCF and from certain other Affiliates, and a change in the assumptions calculating BarCap's unsecured claim.

Significant developments in the Reporting period

MCF has completed a transaction which realises most of its non-cash assets providing value at the high end of our previous estimates. This has improved the Low case indicative outcome by c.£51m and the High case by c.£17m. We understand this should enable MCF to pay a significant dividend to its creditors, including LBIE, in the next reporting period.

LBIE lost its appeal in the Korean appeal court. A negotiated settlement is being pursued but has resulted in a c.£28m reduction in the High case indicative outcome.

During the Reporting period, the expiry of a contractual indemnity period and a reassessment of the risks associated with certain post-Administration contracts has enabled a release of c.£80m Low case priority claims provision.

The agreed LBHI2 Senior claim of c.£36m was paid in January 2018, following the signing of the Lock-Up Agreement.

Activity has increased on the tax enquiry notified in our last progress report. The German authorities have continued their investigation into certain tax transactions (known as cum/ex trades) allegedly undertaken or facilitated by LBIE prior to the Administration, as part of an industry-wide review of such practices. It is possible that this could result in new Senior and/or non-provable claims being submitted, but none have been received to date. No reserve has been included in respect of such amounts. Any claims received will impact on the reserves and, once determined, may require the projected financial outcomes to be amended. The rights arising from any claims relating to this investigation, if any, are uncertain and will be subject to legal advice.

LBIE Trust Estate

Client Assets

LBIE still holds client securities (c.£46m combined value) relating to certain third parties that are also debtors of LBIE, pending conclusion of litigation with those debtors which we continue to progress as quickly as we are able. These client securities will be released to the relevant third parties when LBIE's own debt claims against those parties are also resolved.

Client Money

Unresolved CME claimants comprise:

- a potential BarCap claim (c.\$262m);
- 103 claims (c.\$6m) relating to non-engaging counterparties in respect of which a UK High Court application for directions will be required;
- 2 claims of nominal value relating to debtor counterparties that are subject to litigation; and
- 14 other CME claimants (with combined claims of c.\$4m) who have received a partial recovery of their CME from the Client Money estate. A settlement proposal developed by the House is currently on hold pending the outcome of the BarCap litigation.

The opportunity to expedite the resolution of the Client Money estate will continue to be explored and, as part of this activity, a bar date application is expected to be initiated in the near future.

Foreign currency

Creditors should note that the AGR litigation and the Client Money estate both have significant unresolved matters which are denominated in a foreign currency.

Outstanding matters and exit from Administration

There remain a number of key outstanding matters in the Administration. The next steps are anticipated to be:

- obtaining the approval of the Surplus Scheme and then implementing it;
- payment to Senior creditors of their Surplus entitlements in accordance with the Surplus Scheme;
- realisation of the residual assets and agreement and settlement of the expenses of the Administration;
- conclusion or settlement of the BarCap litigation and completion of the winding-up of the LBIE Trust estate; and
- settlement of other outstanding disputes and transfer of outstanding value to the Wentworth parties as holders of the residual economic interest in the Administration.

The Administrators will investigate and work with Wentworth to choose an appropriate mechanism to facilitate the completion of the above matters and to bring the Administration to an end at an appropriate stage.

Section 3:

LBIE Surplus entitlements and Waterfall proceedings

Introduction

The Waterfall proceedings in the UK Courts were commenced with the objective of determining entitlements to the Surplus. Parallel with this, the Administrators continued to have conversations with key stakeholders, particularly Wentworth and the SCG, to explore the prospect either of an interim distribution or of an overall resolution to the Waterfall proceedings that would unlock payments to creditors from the Surplus.

These explorations usefully identified where areas of common ground might exist that could eventually contribute to an agreement that would enable a payment of Post-Administration Interest. Following receipt of the UK Appeal Court judgment in Waterfall II A and Waterfall II B, more discussions were held and key areas of agreement and concessions were identified.

The result of these discussions was that LBIE entered into a legally binding agreement with Wentworth and the SCG on 22 December 2017, known as the Lock-Up Agreement. This sets out the mechanism by which we expect to be able to achieve full and final settlement of predominantly all litigation, disputes and claims in respect of entitlements to LBIE's Surplus and to effect the payment of statutory interest and repayment of LBIE's Subordinated Debt.

The Lock-Up Agreement stipulates that settlement of the Waterfall proceedings and the payment of both statutory interest and the Subordinated Debt will be implemented by way of a Scheme of Arrangement pursuant to the UK Companies Act 2006. The Administrators have drawn up proposals for the Surplus Scheme in line with the terms set out in the Lock-Up Agreement as described in the Practice Statement Letter that is expected to be sent to creditors during April.

Further detail regarding the Surplus Scheme will be set out in the explanatory statement and other documents which are expected to be circulated to creditors and made available on the LBIE website. This detail is not, therefore, set out in this report, save to the extent that it is relevant to the initiatives and work undertaken by the Administrators and matters arising in the Reporting period.

This section of the report therefore sets out:

- an illustration of the Surplus currently available for distribution on the assumptions that: (i) the Surplus Scheme will be approved and become effective by July 2018; and (ii) the Administrators will not receive notice of any significant claims not otherwise reserved for;

- progress during the Reporting period on the Waterfall and other litigation which impacts the Surplus; and
- details of the initiatives pursued by the Administrators in the Reporting period to reach a consensual compromise between Wentworth and the SCG to simplify the Administration estate, leading to the Surplus Scheme proposal.

If the Surplus Scheme is not approved, the various Waterfall proceedings will likely need to continue in order to determine the entitlements to the Surplus. If the remaining Waterfall proceedings were to continue all the way to the UK Supreme Court, we would expect the Administration to take an additional two years to complete, with significantly higher associated costs that have not been factored into our assumptions and indicative financial outcome.

The Surplus Scheme

The Surplus Scheme has been created to deliver 8% p.a. interest on a simple basis to creditors who cannot have any greater entitlement (the holders of "8% Interest Claims"), consistent with the current judgments in the Waterfall proceedings. Creditors whose claims are derived from a contract which expressly provides for a rate of interest in excess of 8% will be paid interest in accordance with the express rate of interest specified in their contract (the holders of "Specified Interest Claims"). The Surplus Scheme will also offer a compromise to creditors whose claims are derived from certain types of agreement (such as ISDA Master Agreements) that may provide for a rate of interest greater than 8%p.a., but where such rate is not expressly stated in the relevant contract (the holders of "Higher Rate Claims").

The Surplus Scheme will have two voting classes: 8% Interest Claims and Specified Interest Claims will form a separate class from Higher Rate Claims for the purpose of approving the Surplus Scheme.

Post-Administration Interest will be paid from the Surplus to holders of admitted Senior claims on the outstanding balances of their claim from the date of Administration until the balance was paid in full (subject to the principles established by the UK High Court in the Waterfall II C judgment for holders of Higher Rate Claims certifying).

Under the Surplus Scheme, the holders of Higher Rate Claims, will choose between one of two payment options in respect of all such claims that they hold:

- i. accepting payment of Post-Administration Interest at 8% simple, together with an additional settlement

payment of 2.5% of the relevant Senior claim amount;
or

- ii. submitting a certification for the rate of interest applicable to their Higher Rate Claims. If the Post-Administration Interest certified is not accepted, then this will be resolved through the Surplus Scheme, by way of an adjudication process.

The convening court hearing is anticipated to take place during May 2018. A timeline for the approval and implementation of the Surplus Scheme will be included with the Surplus Scheme documents.

The Surplus Scheme will provide a mechanism for setting a bar date for the receipt of claims (with the exception of certain expense claims). Provided it is supported by a majority in number and 75% by value of voting creditors in each of the two classes of creditors and is approved by the court at a sanction hearing, it will be binding on all of LBIE's creditors.

Illustrative Surplus currently available for distribution

If the Surplus Scheme is approved, the Administrators will be required to calculate the "Net Available Funds" from which a distribution of Post-Administration Interest can be made. This will be calculated from the available funds (cash and cash equivalent assets) plus such amount attributable to estimated future realisations as the Administrators in their discretion consider to be appropriate, less "Adequate Reserves".

Adequate Reserves is a provision which will include: priority claims; continuing expenses of the Administration; claims which have been received by the bar date but not admitted; claims which have not been finally adjudicated upon (e.g. because they are subject to appeal); together with Post-Administration Interest on such claims calculated on the assumption that they are paid on 15 September 2021.

We set out in the following table an illustration of the potential funds available for distribution in the Surplus Scheme as at 14 March 2018 based on the assumptions in the notes following the table. This analysis will be updated as part of the Surplus Scheme process.

This shows that, based on these assumptions, there should be sufficient Net Available Funds to meet the full Post-Administration Interest entitlements of admitted Senior claims under the Surplus Scheme and make a distribution on account to the holder of the Subordinated Debt:

Surplus Scheme potential funds flow

Surplus	Notes	Currently available 14 March 2018 £m
Cash and cash equivalent assets	1	6,576
Expected future realisations	2	Uncertain
Adequate Reserves	3	(940)
Net Available Funds		5,636
Post-Administration Interest payments	4	(5,121)
Non-provable claims	5	-
Available to repay Subordinated Debt and Post-Administration Interest thereon	6	515

Note 1 - Cash and cash equivalent assets comprises the House Estate cash balance at 14 March 2018 as shown on page 20.

Note 2 - This will be calculated in due course.

Note 3 - Adequate Reserves include:

- the estimated future costs of the Administration;
- the Low case value of the priority claims;
- a reserve for the BarCap claim being the maximum recovery agreed with BarCap that could be payable out of the Surplus (rather than a claim against the Client Money estate); and
- a reserve for certain Senior claims received but not admitted to date.

No reserve has been made in respect of any new Senior or non-provable claims that may be received prior to the Surplus Scheme bar date.

Note 4 - Post-Administration Interest entitlements have been calculated on admitted claims as at 14 March 2018 at the specified rate for Specified Interest Claims, or at 8% simple for all other claims, together with an additional settlement payment of 2.5% of the relevant Senior claim amount to the holders of Higher Rate Claims. This therefore assumes that all creditors with Higher Rate Claims elect to take the 2.5% additional settlement payment, and that no further Senior claims are received prior to the Surplus Scheme bar date.

Note 5 - No non-provable claims have been received by LBIE as at 14 March 2018. If any non-provable claims are received prior to the Surplus Scheme bar date, these (together with Post-Administration Interest thereon) would be payable after the payment of Post-Administration Interest on Senior claims but prior to payment of the Subordinated Debt.

Note 6 - If there are sufficient Net Available Funds to allow payment of the Post-Administration Interest entitlements in full (together with amounts due under non-provable claims, if relevant), then a distribution will be made to the holder of the Subordinated Debt.

Progress on the Waterfall and other court-related proceedings

The Waterfall I proceedings were concluded and the Waterfall III proceedings settled in the previous reporting period. The Waterfall III proceedings were formally concluded by the parties entering into a consent order which was ratified by the UK High Court in the Reporting period.

Waterfall II A & B – decision of the UK Appeal Court

The judgment of the UK Supreme Court in Waterfall I impacted the issues under appeal in Waterfall II. In particular, the ruling that CCCs did not exist meant that materially all the issues under appeal in tranche B and half of those under appeal in tranche A fell away.

The UK Appeal Court gave its Waterfall II A and Waterfall II B judgment on 24 October 2017 upholding the decisions of the UK High Court on all issues appealed. The decisions upheld were:

- a. Dividends paid in the Administration are first applied in paying down a creditor's proved debt until it is paid in full. Then any Surplus is applied to paying statutory interest accrued for periods post-Administration when the proved debt was fully or partially outstanding. The UK Appeal Court rejected the argument from *Bower v Marris* which would have required interest to be calculated on the basis that dividend payments are first applied to interest and then to principal.
- b. Post-Administration Interest on admitted contingent claims accrues from the date of Administration rather than any later date on which the relevant contingency occurred.
- c. Creditors are not entitled to any interest for the period from the date when the admitted claim is paid in full to when Post-Administration Interest on that claim is paid.
- d. Creditors cannot claim Post-Administration Interest at a judgment rate higher than the English statutory rate (of 8% simple) unless a foreign court judgment had been obtained before the date of Administration.
- e. Where a creditor is contractually entitled to interest at a compounding rate which is greater than the 8% judgment rate, the creditor is entitled to Post-Administration

Interest on a compounding basis, but compounding ceases when the principal admitted claim has been paid in full.

- f. Where a creditor has an admitted claim in respect of a contractual close-out sum arising post-Administration (e.g. under an ISDA Master Agreement), Post-Administration Interest is calculated at the contractual rate under the contract from the date such entitlement to interest started under the contract.

Various of the parties to the proceedings then made an application to the UK Supreme Court for permission to appeal decisions (a), (b) and (e) above. Following the execution of the Lock-Up Agreement, at the request of the Administrators the UK Supreme Court has deferred its decisions on the appeal applications until 30 April 2018 pending further developments in respect of the Surplus Scheme. If the Surplus Scheme is implemented, the appeal applications will be withdrawn as a result of the litigation being settled.

The terms of the proposed Surplus Scheme follow the decisions of the UK Appeal Court above.

Waterfall II C – cost of funding

Waterfall II C concerns issues arising from the construction of ISDA Master Agreements and other similar financial contracts which may give rise to a contractual Post-Administration Interest entitlement greater than the judgment rate of 8% simple. In particular, these concerned how contractual rates which were stated to be set by reference to the counterparty's cost of funding should be calculated.

The UK High Court gave its decision on Waterfall II C on 5 October 2016. A number of its decisions are being appealed to the UK Appeal Court with an appeal hearing set to commence on 3 July 2018.

The UK High Court decided that the cost of funding should be calculated by reference to the cost of borrowing that would be incurred by the original counterparty having recourse to its unencumbered assets generally.

In the view of the Administrators, the impact of the UK High Court decision on the calculation of cost of funding is that the number of admitted claims which will have a contractual right to interest significantly in excess of the judgment rate of 8% simple is limited.

Under the proposals in the Surplus Scheme, the Waterfall II C litigation would be settled on terms that apply the existing UK High Court decision.

Waterfall IV (statutory lacuna)

The Waterfall I decision of the UK Supreme Court confirmed that under UK insolvency legislation, entitlements to unpaid statutory Post-Administration Interest cannot be claimed in a subsequent liquidation (a position sometimes referred to as the “statutory lacuna”). The impact of this is that if LBIE were to enter liquidation prior to the payment of Post-Administration Interest, the funds that would otherwise have been distributed to creditors as Post-Administration Interest would instead flow down to the Subordinated Creditor and then, depending on the sums available, the Shareholders.

Following the handing down of the Waterfall I decision, an update was provided to all creditors in which the Administrators clearly set out their position on the appropriateness of continuing with the Administration rather than seeking an early liquidation and thereby preserving Senior creditors’ entitlement to Post-Administration Interest.

On 24 October 2017, the Subordinated Creditor wrote to the Administrators seeking a creditors’ decision pursuant to paragraph 56(1) of Schedule B1 to the Insolvency Act to bring about the termination of the Administration and the start of a liquidation. On 28 November 2017, the Administrators applied to the UK High Court seeking directions in respect of (i) the Administrators’ obligations to comply with this request, and (ii) the Subordinated Creditor’s ability to make the request or take other steps to bring about the liquidation of LBIE.

Following the execution of the Lock-Up Agreement, the Subordinated Creditor and the Administrators obtained a stay of the proceedings. If the Surplus Scheme becomes effective, steps will be taken to dismiss these proceedings as Post-Administration Interest entitlements will be distributed under the terms of the Surplus Scheme.

Third party challenges to creditor proofs – the Olivant proceedings

Under rule 14.8(3) of the Insolvency Rules, a creditor is entitled to challenge an Administrator’s decision to admit another creditor’s proof, provided that challenge is made within 21 days of the third party becoming aware of the Administrator’s decision.

On 19 September 2017, Wentworth Sons Sub-Debt S.a.r.l (“WSSD Sarl”) issued an application seeking to reverse or vary the Administrators’ decision to admit, in an amount of c.£555m, a proof submitted by Olivant. The value of Olivant’s proof had been agreed and admitted pursuant to a CDD.

Further to WSSD Sarl’s application, the Administrators identified a number of issues that in their view required determination by the court as preliminary issues, including whether a challenge can be made to a proof admitted by a CDD, what approach the court should take to valuing and determining the claim, and whether WSSD Sarl is within the 21 day window or should be granted permission to bring the application out of time. The UK High Court agreed that these issues were suitable for preliminary determination, and trial of the preliminary issues was set for June 2018, with any further issues to be heard in 2019.

Another creditor, Lehman Brothers Opportunity Holdings Inc, applied to be joined to the application. WSSD Sarl has also applied to amend its application to include a reduction in the admitted amount of the Olivant proof to c.£223m and for the Olivant CDD to be set aside.

Pursuant to the Lock-Up Agreement, a stay of these proceedings has been obtained pending the Surplus Scheme becoming effective. If the Surplus Scheme becomes effective, further steps will be taken to achieve the dismissal of this application.

The Surplus Scheme includes a provision to prevent creditors from issuing third party challenges to the proofs of other creditors. This would then provide certainty as regards the principal debts of LBIE’s creditors, allowing the calculation of LBIE’s total Post-Administration Interest liability.

Withholding tax proceedings – decision of the UK Appeal Court

In a decision dated 19 December 2017, the UK Appeal Court overturned the UK High Court decision on an appeal by HMRC and ruled that Post-Administration Interest payments do constitute “yearly interest” for the purposes of the Income Tax Act 2007. This means that the Administrators will be obliged to withhold tax on Post-Administration Interest payments made to creditors and account for this tax to HMRC.

The UK Appeal Court refused permission to appeal, but an application for permission to appeal has since been made to the UK Supreme Court. The outcome of this application remains outstanding.

While the litigation remains outstanding, an appropriate withholding tax deduction from Post-Administration Interest payments of at least 20% will be made in most cases. Should the litigation be concluded and find that withholding tax was not required, HMRC will be required to repay the tax.

Parallel to the court proceedings, the Administrators have liaised with HMRC to facilitate identifying a way forward to enable creditors to agree treaty clearance (or otherwise) for withholding tax on payment of Post-Administration Interest. Guidance will be put on the LBIE website in due course.

BarCap claims application – in train

This court application relates to the treatment of BarCap’s claims into the LBIE House and Client Money estates. During the current Reporting period witness statements and expert reports were filed and a memorandum of points of agreement and disagreement prepared. Matters not heavily reliant on evidence will be subject to an 8-day hearing scheduled to commence on 16 April 2018, with evidence-heavy matters stayed, to be dealt with at a later hearing if required.

The issues to be considered include:

- whether, in respect of claim elements which have the benefit of CME, BarCap has an alternative unsecured claim and the basis on which such a claim should be valued (first hearing);
- whether for claim elements for which BarCap has both CME and unsecured claim status, it is entitled to pursue an unsecured claim to the exclusion of a CME claim (first hearing);
- the manner and date from which the \$777m LBI payment to BarCap is to be applied by way of reduction either to a CME claim or to an unsecured claim (first hearing);

- the extent to which BarCap has potential entitlements to claim against the Surplus (first hearing); and
- the “threshold issue” (whether the debt claim that BarCap acquired from LBI in fact benefits from Client Money protection) and the status of Korean trades in the context of CME (later hearing).

Absent a consensual settlement, the BarCap proceedings will not be concluded as a result of the Surplus. It will therefore be necessary to reserve for BarCap before making distributions of Post-Administration Interest under the Surplus Scheme.

Claim resolution initiatives

During the Reporting period the Administrators have continued to explore ways of allowing creditors who are not parties to the Waterfall proceedings to monetise their claims, exit their relationship with LBIE and thereby simplify the Administration estate.

Second small deed offer

A second offer via LBNL was made to a population of Senior creditors with an admitted claim value principally below £6m, to acquire their admitted claims. In the period, 24 creditors with admitted Senior claim values of c.£31m accepted the offer, with total Surplus entitlements of c.£13m being transferred to LBNL as a result in December 2017.

LACA IV

The Administrators started work on arranging a further LBIE admitted claims auction to enable creditors who were not participants in the Waterfall proceedings to sell their claims and exit from the Administration. As it became clear that there was the basis for a consensual agreement between the Waterfall participants through what became the Surplus Scheme, work on this has not proceeded.

Unsecured claim certificates

Throughout the course of the Reporting period, the Administrators have refined the Unsecured Claim Certificates (“UCCs”) in order to take account of the various judgments which have been handed down and to reflect their views upon how the issues being litigated would affect individual creditor positions.

Following positive feedback received from counterparties after the issuance of the first and second UCCs, the Administrators developed a third UCC (“UCC3”) in October 2017 for those creditors being offered the second small deed offer. This was then expanded to include all Senior creditors with an admitted claim in preparation for the Surplus Scheme. The UCC3

provides an updated view of the creditor's entitlement to the Surplus, taking into account (among other things) the UK Court of Appeal decision in Waterfall II A and Waterfall II B and the UK Supreme Court judgment in Waterfall I. As a consequence of positive negotiations with HMRC, the UCC3s include tax treaty categories to assist HMRC on whether to withhold tax on the payment of statutory interest to unsecured creditors, where appropriate.

On 22 December 2017 the Administrators confirmed to creditors that the details contained in the UCC3s would be used to determine the constitution of classes of creditors under the Surplus Scheme, to calculate creditors' voting rights for the creditors' meetings and ultimately to calculate creditors' entitlements to the Surplus.

Creditors were requested to confirm their agreement to the information set out in their UCC3s by 19 January 2018. Using the information from this and a very limited number of queries raised by creditors, the Administrators have produced a fourth UCC, which sets out the disaggregation of their admitted Senior claims between those entitled to interest at the judgment rate and those with a contractual interest claim, their voting rights and their Post-Administration Interest entitlements.

Section 4:

LBIE 100p estate

Introduction

An updated summary of the indicative Low and High case financial outcome scenarios for unsecured creditors in the LBIE 100p estate is set out below. This should be read in conjunction with the assumptions and commentary set out overleaf.

Summary

Page	House Estate at 14 March 2018	Notes	Low £m	High £m	Difference £m
20	Total cash in hand		6,576	6,576	-
	Projected future movements				
15	Net Client Money benefit to the House Estate	1	952	1,149	197
15	House receivables	2	330	741	411
16	House securities	3	36	48	12
	Future recoveries expected		1,318	1,938	620
16	Future estimated costs	4	(113)	(113)	-
17	Priority claims [^]	5	(375)	(61)	314
	Total future cash expected to be recovered		830	1,764	934
	Funds available		7,406	8,340	934
18	Pending Senior claims	6	(8)	(22)	(14)
	Surplus before Post-Administration Interest, non-provable claims, and the Subordinated Debt		7,398	8,318	920

[^] Amounts included in priority claims do not rank for Post-Administration Interest.

Low and High case movements in the Reporting period

The updated indicative Low and High case Surplus outcomes in the table above are c.£7.40bn and c.£8.32bn respectively. The principal changes in the indicative outcomes over the Reporting period are as follows:

	Low £m	High £m	Comments
Indicative Surplus as at 14 September 2017	7,073	8,097	
Movements in the period			
Net Client Money benefit to the House Estate	14	1	Additional LBH recovery net of unrealised foreign exchange movement
House receivables	83	12	Revised increases in Affiliate recoveries (principally MCF), offset by adverse changes in the Korean litigation and unrealised foreign exchange movements
House securities	4	(3)	Unrealised market value on remaining securities
Future estimated costs	117	117	Improvements following revised costs assumptions
Priority claims	97	23	Reduction in post-Administration indemnities and UK tax provision release
Pending Senior claims	3	64	Reduction in BarCap High case estimate and settlement with a creditor
Other	7	7	Italian tax refund, sale of tax losses, interest and dividend receipts offset principally by payments to LBNL to fund the second small deed offer
Indicative Surplus at 14 March 2018	7,398	8,318	

Assumptions and commentary

The assumptions underlying indicative future cash recoveries/payments and the resolution of pending Senior creditor claims and Shareholder claims are set out overleaf.

Note 1 - Net Client Money benefit to the House Estate

	Low £m	High £m
Pre-Administration Client Money estate		
Projected Client Money available to distribute ^a		
Funds held at 14 March 2018 ^b	1,128	1,128
LBHI/LBB future recoveries ^c	18	27
	1,146	1,155
Less future third party distributions		
Potential BarCap CME ^d	(188)	-
Future distributions of retained CME claims ^e and estimated funds to be paid to the UK High Court ^f	(6)	(6)
	(194)	(6)
Projected future transfer to the House Estate	952	1,149

- It is assumed that the Administrators will not be required to trace and recover assets from the House Estate for the benefit of the Client Money pool.
- Funds are predominantly now held in sterling, with c.\$272m retained in US dollars to meet potential future CME liabilities. We have therefore shown the figures in sterling for this report.
- This represents the combined potential future dividends on LBIE's LBHI guarantee claim of c.\$1.01bn and LBB unsecured claim of c.€400m.
- The potential BarCap CME claim is an assessment by LBIE as detailed below.
- Future final distributions to 14 claimants with retained CME at a rate of 51.8% of total CME claims of c.\$4m.
- Includes 103 non-engaging counterparties with total CME claims of c.\$6m and 2 counterparties subject to overseas court proceedings.

Before the remaining Client Money estate is transferred to the House Estate, it will be necessary to conclude the BarCap proceedings (see below) and seek agreement of the court for the arrangements in respect of the remaining CME claimants. These funds are not, therefore, immediately available for distribution to unsecured creditors whether through the Surplus Scheme or otherwise.

Potential BarCap CME

The Low case outcome scenario continues to assume that the BarCap maximum CME claim will be in the region of c.\$262m. This amount represents an agreed and reconciled gross CME claim of c.\$1.04bn less the \$777m paid to BarCap by LBI. Included in the c.\$1.04bn claim is an amount of c.\$146m relating to transactions in Korea which may, or may not, be subject to Client Money protection.

In the High case outcome scenario, BarCap is assumed to hold a Senior claim of c.£211m, rather than a CME claim. This is based on legal advice that the LBI payment must be converted into sterling at the date of payment, and deducted from the

sterling proof. This is a change in the basis of calculation since our last progress report where the exchange rate at the date of administration was used, resulting in a High case improvement of c.£63m.

For purposes of the Surplus Scheme, a single reserve estimate of c.£436m has been agreed with BarCap, being the maximum recovery that could be payable out of the Surplus.

Note 2 - House receivables

House Estate receivables as at 14 March 2018, referred to below, are indicative only and significant matters remain unresolved, predominantly relating to litigation, which may materially impact this estimate.

	Rec'd in period £m	Indicative future recoveries	
		Low £m	High £m
House receivables			
Litigation			
AGR	-	-	344
Others	-	1	4
Client Assets claimants	-	-	23
	-	1	371
Affiliates and branches			
MCF	-	291	307
Other Affiliates	22	38	63
	-	329	370
Receivables at 14 March 2018[∞]	22	330	741

[∞] Excluded from the above are:

- 10 counterparties with an aggregate c.£65m owing to LBIE where payment is not forthcoming because of the ISDA Section 2(a)(iii) issue. LBIE continues to explore options for realising value from such claims; and
- 4 claims with nominal values against insolvent/restructured debtors and 1 claim of c.£119m against another insolvent debtor, where the potential return to its creditors, including LBIE, is extremely uncertain.

AGR litigation

As previously reported, AGR filed a dispositive motion on 22 February 2016 seeking summary judgment in its favour. Unfortunately, the decision of the Supreme Court of the State of New York on this motion still remains outstanding. Accordingly, there has been no movement on this issue and no change in the illustrative values since our last report, save for exchange rate fluctuations.

Without a material movement of position by either side (and none is expected) or judicial progression of the legal proceedings, this matter is likely to be one of the last issues to be resolved in the Administration.

Others in litigation

Judgment in the appeal hearing regarding a Korean debtor was made against LBIE. A settlement to this matter is being developed (which also involves realisation of some House securities) and only a small recovery is now expected. In addition, enforcement of a US court judgment against a different debtor, domiciled in Saudi Arabia, is continuing. The indicative Low case outcome assumes nil recovery and the indicative High case outcome assumes c.£3m.

Client Assets claimants

The indicative High case outcome assumes recovery of debts that remain subject to ongoing litigation in a German court. A determination on the quantum of the termination value due to LBIE is awaited.

LBIE holds client securities (c.£46m combined value) relating to these parties. The client securities will be released to the third parties once LBIE's receivable claims against those parties are resolved.

MCF

LBIE and LBHI together hold the majority of claims in MCF and have continued to review progress of the collections from MCF's solvent subsidiaries and to explore opportunities to enhance the value or expedite the timing of this ongoing realisation process. MCF has recently completed a transaction which realises most of its non-cash assets, providing value at the high end of our previous estimates. Total recoveries on a High case basis are now expected to be c.£307m and c.£291m in the Low case. A material distribution is expected to be received in the coming months.

Other Affiliates

LBIE has provided further funding in the Reporting period of c.£12m via LBNL for it to acquire certain Senior claims under the second small deed offer, increasing the LBNL receivable to c.£17m. This will be recovered by LBIE principally upon receipt by LBNL of Post-Administration Interest from LBIE on the acquired claims.

Other expected future recoveries relate to further assumed distributions from LBSF and from other insolvent Affiliate estates.

Note 3 - House securities

Securities	Low £m	High £m
Available for sale	21	33
Korean securities	15	15
House securities at 14 March 2018	36	48

We have recovered c.£3m from realised securities in the Reporting period. All remaining securities "available for sale" have specific issues attaching to them which remain to be resolved. We continue to review the value of our securities on an ongoing basis.

The Korean securities may be released under a settlement to the dispute described in note 2. Since our last progress report the share price has reduced and, consequently, we have seen a c.£4m reduction in both the Low and High case.

Note 4 - Future estimated costs

Summary costs	Legal £m	Admin. fees £m	Other £m	Total £m
Estimated costs by year				
2018	(25)	(17)	(14)	(56)
2019	(12)	(11)	(9)	(32)
2020	-	(3)	(2)	(5)
	(37)	(31)	(25)	(93)
Costs accrued at 31 December 2017				(31)
Costs paid 1 January to 14 March 2018				11
Future estimated costs at 14 March 2018				(113)

On a calendar year basis, we prepare a detailed cost budget and a long-term forecast of the costs to complete the Administration. These forecasts are reviewed and updated at 6-monthly intervals and are discussed with the Committee.

The future estimated costs have been reassessed on the assumption that the Surplus Scheme is approved by the UK High Court in the first half of 2018, with payments of statutory interest entitlements expected soon thereafter. It would then follow that the remaining Waterfall proceedings are concluded and that nearly all Senior creditors receive their full Surplus entitlement by the end of 2018. This will leave a much reduced number of issues subject to ongoing litigation and we have assumed that these will be settled or concluded such that the Administration can be brought to an end during 2020.

These key assumptions are significantly different from those set out in the last progress report, which assumed that full litigation and appeal processes would be required for the Waterfall proceedings and that these, and the Administration,

would not be concluded until 2022. Accordingly, estimated costs are c.£117m lower than in the last progress report.

Note 5 - Priority claims

These are claims which could crystallise in certain circumstances and would rank for payment in priority to Senior creditors. The movements in the period are summarised below.

	Low £m	High £m
Priority claims		
Reported as at 14 September 2017	(473)	(85)
Movements in the period		
Tax provisions releases	9	-
Post-Administration indemnities	80	20
Other	9	4
	98	24
Priority claims at 14 March 2018	(375)	(61)
Comprising		
Tax provisions	(161)	(7)
Post-Administration indemnities	(80)	(20)
Other reserves	(134)	(34)
Priority claims at 14 March 2018	(375)	(61)

Tax provisions

The Low case outcome assumes that the majority of LBIE's potential outstanding tax liabilities in various jurisdictions ultimately will become payable to the relevant taxing authorities.

In the High case outcome, the assumption is that the majority of these tax liabilities, ultimately, will not be assessed.

In the period we have:

- finalised the position with the Italian tax authorities resulting in a c.€4.5m repayment being received;
- maintained dialogue with the French tax authorities seeking to ultimately agree tax repayments to LBIE;
- released certain tax provisions following the completion of the potential review periods; and
- sought further information from the German authorities regarding possible claims against LBIE arising out of alleged transactions entered into or facilitated by LBIE pre-Administration. No claims have yet been made against LBIE. No provision has been made for any such claims in the indicative financial outcome. The rights arising in relation to any claims relating to this

investigation, if any, are uncertain and will be subject to legal advice.

Post-Administration indemnities

Indemnities have been provided to certain:

- suppliers of post-Administration IT, valuation and property services to LBIE;
- third parties, branches and Affiliates in order to facilitate the release of assets to LBIE's Administrators;
- nominees of LBIE, acting on its behalf including in respect of the return of assets to counterparties; and to
- LBNL in relation to the LBIE admitted claims auctions, LBNL employee offer and small deed offers.

In the Reporting period an obligation fell away upon expiry of the terms set out in the relevant contract, enabling us to reduce provisions by c.£26m in the Low case outcome.

We have also reassessed the risk associated with certain indemnities which has resulted in a c.£54m reduction in the Low case and c.£20m in the High case.

Pending finalisation of all exposures, we continue to assume in the High case outcome that some claims against the indemnities will crystallise.

Pension Fund provision

During the Reporting period the residual trustee costs were paid and trustee liability insurance put in place. The remaining Pension Fund provision has therefore been released.

Other reserves

In the Low case outcome, other reserves relate to a range of litigious issues, the outcomes of which remain uncertain including adverse litigation (non-Waterfall) cost exposures.

In the High case outcome, we have continued a prudent reserving policy in assuming that some of the reserves will be required.

Note 6 – Pending Senior claims

The majority of pending unsecured claims by value are subject to litigation, and their eventual outcome may materially impact the estimates below.

Senior Claims	POD £m	Low £m	High £m
BarCap claim	(517)	-	(21)
Other creditors	(18)	(2)	(1)
Affiliate creditors	-	(6)	-
Total	(535)	(8)	(22)

Proofs of Debt

10 creditors have submitted Proofs of Debt totalling c.£535m in response to which LBIE has yet to admit, reject or agree withdrawal. The largest claim relates to BarCap (c.£517m).

The other creditors' claims of c.£18m comprise:

- 1 claim that is subject to litigation in the US (totalling c.£16m);
- 7 claims in the aggregate sum of c.£2m from counterparties to which CME offers have also been made, but those counterparties are currently unresponsive. Accordingly, these claims may require an application to the UK High Court in order to finalise them; and
- 1 Affiliate claim (nominal claim value).

Further claims may be received ahead of the Surplus Scheme bar date which may require further reserves to be made.

German tax investigations

The German authorities have continued their investigation into certain transactions (known as cum/ex trades) undertaken or facilitated by LBIE prior to the Administration, as part of an industry-wide review of such practices. It is possible that this could result in claims for tax, fines or penalties being made in due course, but at the date of this report, no such claims have been made and the quantum of any such claims is uncertain. No provision has been made for any such claims in the indicative financial outcome.

The rights arising in relation to any claims from this investigation, if any, are uncertain and would be subject to legal advice. Claims received could impact on the calculation of Adequate Reserves and may therefore reduce the level of currently available Surplus for distribution.

Olivant proceedings

On 19 September 2017, the Administrators received notice of an application by WSSD Sarl to inspect the Proof of Debt and challenge the admitted (and paid) claim value (c.£555m) of the largest single Senior creditor in the LBIE 100p estate, Olivant. The Insolvency Rules make provision for any creditor to inspect Proofs of Debt lodged and also to challenge another creditor's admitted claim value. The Administrators made an application to the court for a number of issues requiring determination (the "Olivant proceedings") and a case management hearing was held in November 2018 setting the hearing date for the preliminary issues as June 2018.

Pursuant to the Lock-Up Agreement, the Olivant proceedings have been stayed. If the Surplus Scheme becomes effective, steps will be taken to dismiss the Olivant proceedings and creditors will be prevented from issuing challenges to the proofs of other creditors going forward. We have therefore made no provision for changes to the level of Senior claims arising from the Olivant proceedings.

Reserves

The reserves for pending claims have reduced by c.£3m in the Low case and c.£64m in the High case due to settlement with a creditor at an amount equivalent to the High case reserve, and a change in the basis of calculation of the BarCap High case reserve. A nil value is shown in the Low case for the BarCap claim (it is assumed to be withdrawn in favour of a CME claim) and a value of c.£21m is now shown in the High case (being the amount claimed by BarCap converted into sterling at the date of the Administration appointment, less the \$777m payment made directly by LBI to BarCap, now converted into sterling at the date of payment). In previous reports, the High case reserve was based on the net claim being converted into sterling at the date of the Administration appointment.

The reserves exclude any provision for a request made by Lehman Brothers Australia Limited to amend the value of its admitted claim (by a modest amount) which is subject to a UK High Court application. The application was heard on 30 June 2017 and judgment is awaited.

Shareholder claims

As part of the settlement of the Waterfall III proceedings in the prior period, LBIE agreed a Senior creditor claim from its shareholder, LBHI2, at c.£36m. Following the signing of the Lock-Up Agreement this claim was formally admitted and a catch-up dividend paid of 100p in the £.

Appendices

Appendix A:

Receipts and payments: cumulative and 6 months to 14 March 2018

House Estate receipts and payments: cumulative and 6 months to 14 March 2018

House Estate	Notes	Cumulative - 15 September 2008 to 14 September 2017 (GBP equivalent) £m	Period - 6 months to 14 March 2018 (GBP equivalent) £m	Cumulative - 15 September 2008 to 14 March 2018 (GBP equivalent) £m
Receipts				
Counterparties	1	12,363	22	12,385
Other receipts	2	13,490	26	13,516
Total receipts for the period		25,853	48	25,901
Payments				
Dividends paid	3	(12,306)	(36)	*(12,343)
Administrators' remuneration and disbursements	4	(1,026)	(8)	(1,034)
Payroll and employee costs	5	(647)	(4)	(651)
Legal and professional costs	6	(409)	(8)	(417)
Pension Fund settlement	7	(122)	(1)	(123)
Other payments	8	(4,606)	(19)	(4,625)
Total payments for the period		(19,116)	(76)	*(19,192)
Net movement in the period		6,737	(28)	6,709
Foreign exchange translation differences [^]		(132)	(1)	(133)
Total House Estate cash deposits and government bonds	9	6,605[~]	(29)	6,576[#]

* These sums do not perfectly cast due to rounding to £m.

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

[~] Balances held in foreign currencies at 14 September 2017 were c.\$4m and various other currencies c.£1m (equivalent).

[#] Balances held in foreign currencies at 14 March 2018 were c.\$4m and various other currencies c.£0.1m (equivalent).

Statement of expenses incurred in the 6 months to 14 March 2018

The following table provides details of expenses incurred in the Reporting period.

The table excludes c.£36m unsecured distribution, c.£12m of funding via LBNL of the second small deed offer, c.£1m pension trustee liability insurance payment and c.£3m recoverable VAT.

Expenses	Movement in accruals in 6 months to 14 March 2018 £m	Paid in 6 months to 14 March 2018 £m	Incurred in 6 months to 14 March 2018 £m
Administrators' remuneration and disbursements	-	(8)	(8)
Payroll and employee costs ±	(1)	(4)	(3)
Legal and professional costs	-	(8)	(8)
Other payments	-	(4)	(4)
Total	(1)	(24)	(23)

Movement in accruals relate to:

± Payment of staff bonuses in the Reporting period.

Notes

General

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

The transactions within the LBIE estate in the period:

- are reported on a cash receipts and payments basis and in accordance with the Insolvency Rules and best practice; and
- were completed in accounts established and controlled by the Administrators.

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

1. Counterparties

Receipts in the period principally comprise:

- c.£12m of recoveries from LBHI distributions; and
- c.£10m of distributions from Lehman Brothers OTC derivatives.

2. Other receipts

Other receipts principally comprise:

- c.£8m of bank and bond interest received;
- c.£6m from the sale of tax losses to other Affiliates;
- c.£4m of tax refunds from Italian tax authorities;
- c.£3m of VAT repayments received from HMRC;
- c.£3m realisation from House securities; and
- c.£2m of various asset services income.

3. Dividends paid

An unsecured distribution of c.£36m has been paid in the period.

4. Administrators' remuneration and disbursements

Payment deferral terms (as agreed with the Committee and referred to on page 25 of this report) account for any differences between costs incurred and payments made in the period. Out-of-pocket disbursements of less than £1m were paid in the period.

5. Payroll and employee costs

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

6. Legal and professional costs

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

7. Pension Fund settlement

Payments of c.£1m comprising of residual trustee costs and trustee liability insurance.

8. Other payments

Other payments principally comprise:

- c.£12m to fund the second small deed offer (and associated costs) via LBNL;
- c.£4m of VAT paid on invoices; and
- c.£2m of occupancy and infrastructure costs.

9. Investment profile

Current investment strategy

For immediate liquidity requirements, LBIE invests in short-term money market deposits. For other requirements, investments are held in UK government, quasi-government debt securities and supranational debt.

Total balances

House Estate	GBP equivalent £m
Short-dated bonds †	6,401
Short-term deposits ‡	167
Interest-bearing accounts	8
Total	6,576

† Average rate of return on bonds yet to mature (net of fund manager fees) of 0.278%.

‡ Average rate of return for 6 months ending 14 March 2018 of 0.30% for sterling deposits.

Cash management and investment policy

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

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

The primary objective continues to be ensuring the security of Administration funds. To meet this objective, a comprehensive counterparty credit risk policy is in place with clear limits on counterparties, instruments, amounts and duration. Compliance with policy is measured on at least a daily basis

using live indicators, and any material breaches arising from market movements are reported immediately to the Administrators.

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

Policy for interest-bearing accounts and short-term deposits/notice accounts

Permitted banks must meet 4 key criteria:

- be headquartered in a sovereign state where the average long-term ratings from S&P, Moody's and Fitch are in the top 4 available tiers (AAA to AA-);
- be headquartered in a sovereign state within the top 3 tiers of the S&P banking industry country risk assessment;
- have a blended average long-term rating from S&P, Moody's and Fitch within the top 4 available tiers (AA to A); and
- be a Prudential Regulation Authority or European Banking Authority approved counterparty.

The counterparties are ranked in 3 tiers (1-3) based on their risk score (1 being least risky) which is calculated by assessing their 5-year credit default swap prices, bond yields, equity volatility, capital buffers and financial ratios. To ensure diversification, counterparty limits and durations are based on the tier to which they belong:

- 20% of funds under management with any single tier 1 bank and a maximum duration of 3 months;
- 20% of funds under management with any single tier 2 bank and a maximum duration of 2 months; and
- 15% of funds under management with any single tier 3 bank and a maximum duration of 1 month.

During the period, the Administrators have approved an amendment to the above policy, which allows Tier 3 banks to be treated as Tier 2 banks with regard to limits and durations. These policies remain under review and may require amendment to allow distributions under the Surplus Scheme.

Policy for bond portfolio

Eligible investments for the bond portfolios are short-dated UK government debt issued by the UK, supranational debt and quasi-government debt securities benefiting from an explicit, unconditional and irrevocable guarantee from the sovereign government.

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

Post-Administration Client Money receipts and payments: 6 months to 14 March 2018

Post-Administration Client Money	Notes	Period - 6 months to 14 March 2018 €m
Total third party balances at 14 September 2017		10
Receipts		-
Payments		-
Net movement in the period		-
Total third party balances at 14 March 2018 [∞]	1	10

[∞] Relating to clients subject to debt recovery litigation in Germany.

We have previously reported Post-Administration Client Money receipts in US dollars. All funds are now held in euros, so we have switched the reporting currency accordingly. The balance as shown in our last report at 14 September 2017 was c.\$12m.

Notes

1. Investment profile

Total balances

Post-Administration Client Money	€m
Interest-bearing accounts	10
Total	10

Cash management and investment policies for client funds

The Client Money cash management policy for interest-bearing accounts is based on that used for the House Estate, modified to comply with the additional Client Money regulatory requirements. Client Money is not eligible for investment in government bonds and can be placed on money market deposits for a maximum duration of 30 days.

Pre-Administration Client Money receipts and payments: cumulative and 6 months to 14 March 2018

As it is now anticipated that the majority of Client Money funds will eventually be transferred into the House Estate, the majority of funds are now held in sterling. Dollar recoveries are converted into sterling soon after receipt. We are therefore showing the receipts and payments accounts in sterling to minimise translation differences. We continue to hold certain funds in US dollars as a hedge for the potential BarCap Client Money claim.

Pre-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 September 2017 (GBP equivalent) £m	Period - 6 months to 14 March 2018 (GBP equivalent) £m	Cumulative - 15 September 2008 to 14 March 2018 (GBP equivalent) £m
Receipts				
Client Money pool recoveries	1	1,424	13	1,437
Funds received for the House		51	-	51
Interest		13	3	16
Total receipts for the period		1,488	16	1,504
Payments				
Client Money interim distribution		(400)	-	(400)
Funds paid to the House		(51)	-	(51)
Legal costs		(6)	-	(6)
Total payments for the period		(457)	-	(457)
Net movement in the period		1,031	16	1,047
Foreign exchange translation differences [^]		92	(11)	81
Total balances – GBP £m	2	1,123[~]	5	1,128[#]

[^] The cumulative translation differences principally arise from translating other currencies into GBP for reporting purposes.

[~] Balances held in currencies other than GBP at 14 September 2017 were c.£205m.

[#] Balances held in currencies other than GBP at 14 March 2018 were c.£195m.

Notes

1. Client Money pool recoveries

Receipts in the period comprised thirteenth and fourteenth distributions from LBHI in respect of LBIE's guarantee.

2. Investment profile

Total balances

Pre-Administration Client Money	GBP equivalent £m
Short-term deposits [^]	1,128
Total[~]	1,128

[^] Average rate of return for 6 months ending 14 March 2018 of 0.27% for sterling deposits and 1.34% for US dollar deposits.

Appendix B: Administrators' remuneration

Analysis of Administrators' remuneration by grade and work activity

The basis of Administrators' remuneration approved by the Committee is by reference to the time properly given by the Administrators or their staff in attending to matters arising in the Administration. The table below provides an analysis of the Administrators' total hours incurred and the associated cost by staff grade and work activity for the previous time reporting period (to 30 June 2017) and the current period (to 31 December 2017), together with the forecast for the current and next period (to 30 June 2018).

	Prior actual		Current actual		Current forecast		Future forecast	
	1 January 2017 to 30 June 2017		1 July 2017 to 31 December 2017		1 July 2017 to 31 December 2017		1 January 2018 to 30 June 2018	
	Hours	£'000	Hours	£'000	Hours	£'000	Hours	£'000
By grade								
Partner	1,614	1,482	1,433	1,365	1,767	1,623	1,803	1,713
Director	2,938	2,050	2,623	1,916	2,647	1,910	2,565	1,863
Senior Manager	6,435	3,309	4,889	2,591	5,885	3,117	3,556	1,854
Manager	5,094	2,090	3,999	1,684	4,978	2,132	3,954	1,737
Senior Associate	6,605	1,953	3,240	983	5,118	1,635	3,691	1,269
Associate	2,856	433	1,907	362	2,060	388	1,634	332
Total	25,542	11,317	18,091	8,901	22,455	10,805	17,203	8,768
Average hourly rate		£443		£492		£481		£510
By work activity								
Resolution of the LBIE 100p estate	781	525	496	351	655	467	459	327
Surplus	7,194	3,707	4,424	2,789	6,883	3,944	3,923	2,757
Finance and reporting	2,933	1,396	2,892	1,415	4,266	1,937	2,193	1,080
Infrastructure ≠	14,634	5,689	10,279	4,346	10,651	4,457	10,628	4,604
Total	25,542	11,317	18,091	8,901	22,455	10,805	17,203	8,768

≠ Infrastructure includes specialist PwC resource relating to information technology, forensics, tax, pensions and certain other back office functions.

Staff profile

The table below provides a summary of the average staff numbers for the previous and current time reporting periods and the forecast average for the current and next time reporting periods.

	Actual		Forecast	
	Prior period ended 30 June 2017	Current period ended 31 Dec. 2017	Current period ended 31 Dec. 2017	Future period ending 30 June 2018
Staff profile				
LBIE staff (including contractors) β	30	21	24	20
PwC staff ∞	26	18	22	17
Ratio of LBIE to PwC staff	1.2	1.2	1.1	1.2

β Staff numbers are shown on a full-time equivalent basis.

∞ PwC staff numbers are calculated on the basis of 8 worked man-hours being equal to 1 full-time equivalent man-day.

In the 6 months to 31 December 2017, both the PwC and LBIE resource reduced faster than forecast, largely due to the Waterfall III settlement enabling the release of certain staff earlier than envisaged. The trend of reduction in resource is a function of:

- simplification of processes and activities and consolidation of roles;
- introduction of part time contracts for LBIE staff to ensure flexibility of resource; and
- ongoing progress against the Administrators' planned activities.

Administrators' remuneration in the current period

In the current time reporting period to 31 December 2017, total hours reduced by 29% compared to the period ended 30 June 2017; total costs in the same period reduced by 21%. The higher average cost per hour reflects a change in grade mix principally as usage of junior forensic resource lessened in the period.

The reduction in hours is due to the lesser resource required after the settlement of the Waterfall III litigation. Anticipated forensic resource was no-longer required in the litigation and, despite work in the litigation work stream continuing in respect of finalising settlement terms and, latterly, supporting the Administrators with the Lock-Up Agreement and Surplus Scheme preparation, overall the hours required have reduced.

Administrators' remuneration forecast for the next period

The forecast 6-monthly time reporting period to 30 June 2018 indicates a 5% reduction in hours and a 1.5% reduction in costs compared with the current period. This principally reflects a forecast:

- continued reduction in forensics work and other PwC resource following the Waterfall III settlement;
- finalisation of the pensions work during the current period; and
- reduction in reporting activity following a transition to an offsite reporting team structure.

The forecast increase of 4% in the average hourly rate predominantly reflects a grade mix change, as junior forensic resource is forecast to reduce, and more senior staff continue to be involved in the Surplus Scheme drafting.

Administrators' remuneration approval

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

Total time costs incurred in the Reporting period are c.£7.9m, which includes time costs incurred from 1 January 2018 to 14 March 2018, not reported in detail on page 24, of c.£2.8m. A full analysis of these costs will be included as part of the 6-month period to 30 June 2018 in the next progress report.

Cumulative time costs accrued to 30 December 2017 are c.£1,001m. Total Administrators' remuneration and disbursements paid to 14 March 2018 are c.£1,034m.

We continue to provide the Committee and its Adviser with detailed information relating to our remuneration and to Category 2 disbursements, in accordance with SIP 9.

Creditors' rights

Creditors have the right to ask for more information about remuneration or expenses within 21 days of receiving this report as set out in Rule 18.9 of the Insolvency Rules. Any request must be in writing. Creditors can also challenge remuneration and expenses within 8 weeks of receiving this report as set out in Rule 18.34 of the Insolvency Rules.

An explanatory note on the rights of creditors in relation to an administrator's remuneration and expenses and how to request further information can be found online at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/creditors-guide-administrators-fees-final.ashx?la=en>

This guide is for appointments on or after 1 November 2011 and whilst not all of the provisions apply to the LBIE Administration (which commenced on 15 September 2008) it is the most appropriate guide currently available following the changes made by the Insolvency (England and Wales) Rules 2016.

You can also get a copy free of charge by telephoning Lucy Caveney on 0113 289 4559.

Approvals by the Creditors' Committee

The Committee approved remuneration arrangements for 2017, which again required deferral of a significant proportion of the Administrators' time costs incurred in the calendar year to be considered at a forthcoming Committee meeting for approval based upon performance.

The Committee has been provided with Category 2 disbursements information relating to the 6-month period to 31 December 2017 amounting to £232,960.

In addition, Category 1 disbursements of £183,479 were incurred in the 6-month period to 31 December 2017 and paid in the Reporting period.

In total, c.£143,178 of Category 1 disbursements and c.£158,470 of Category 2 disbursements were incurred in the 6-month Reporting period.

Appendix C:

Statutory and other information

Court details for the Administration:	High Court of Justice, Business and Property Courts of England and Wales Insolvency & Companies List (ChD) 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
Contact address:	Lehman Brothers International (Europe) – in Administration, Level 23, 25 Canada Square, London E14 5LQ
Contact telephone / email:	+44 (0)20 3036 2000 / generalqueries@lbia-eu.com
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson (both appointed 15 September 2008), R Downs (appointed 2 November 2011) and JG Parr (appointed 22 March 2013) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. MJA Jervis and DY Schwarzmann ceased to act on 2 November 2011. DA Howell ceased to act on 22 March 2013. PD Copley ceased to act on 24 June 2016
Appointor's name and address:	High Court of Justice, Chancery Division, Companies Court on the application of LBIE's directors
Objective being pursued by the Administrators:	Achieving a better result for LBIE's creditors as a whole than would be likely if LBIE were wound up (without first being in Administration)
Aims of the Administration:	Recover and/or realise all House assets, including cash, securities and in-the-money financial contracts, on a managed basis Admit unsecured creditors' claims and make distributions to creditors including any Surplus Recover Client Assets and Client Money, assess the claims to such property and return all such property to its rightful owners on a systematic basis
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) of Schedule B1 to the Insolvency Act, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Administrators may be done by any one or more of the persons for the time being holding that office
Details of any extensions for the initial period of appointment:	The UK High Court on 4 November 2016 granted a further extension of the Administration to 30 November 2022
Proposed end of the Administration:	The Administrators have yet to determine the most appropriate exit
Estimated dividend for unsecured creditors:	Interim dividends paid to date at a cumulative rate of 100p/£1
Estimated values of the prescribed part and LBIE's net property:	The prescribed part is not considered to be relevant as all Senior admitted creditors have been paid or reserved for at a rate of 100p/£1
Whether and why the Administrators intend to apply to court under Section 176A(5) of the Insolvency Act:	Not applicable
The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does not apply to this Administration as LBIE is an investment undertaking
Creditors' Committee members:	Lehman Brothers Holdings Inc. Ramius LLC Lehman Brothers Commercial Corporation Asia Limited

Appendix D:

Glossary of terms

Abbreviation	Term	Definition
8% Interest Claims	8% Interest Claims	A Senior claim without a contractual right to interest at a rate higher than 8% simple
Adequate Reserves	Adequate Reserves	An amount to be deducted from the currently available cash to calculate the amount of the Surplus available for distribution under the Surplus Scheme
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986 applicable to LBIE following the granting of an administration order dated 15 September 2008
Administrators	Joint Administrators	AV Lomas and SA Pearson were appointed as Joint Administrators of LBIE on 15 September 2008. R Downs was appointed on 2 November 2011. JG Parr was appointed on 22 March 2013. All are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales
Adviser	Adviser	An adviser retained to assist the Committee in considering the Administrators' remuneration requests
Affiliate	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings Inc.
AGR	AG Financial Products Inc.	A US-based affiliate of Assured Guaranty Corp. which provided credit protection to counterparties under credit default swaps
BarCap	Barclays Capital Inc.	Investment banking business of Barclays Bank PLC
Category 1 disbursements	Administrators' Category 1 disbursements	Costs that are directly referable to the Administration supplied by and paid to external third parties
Category 2 disbursements	Administrators' Category 2 disbursements	Costs that are directly referable to the Administration but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the Administration on a proper and reasonable basis
CCC	Currency Conversion Claim	Non-provable claim derived from contractual rights to be paid in a currency other than sterling, where the value of sterling has declined as against the currency of the claim between the date of Administration and the date(s) of payment of distributions in respect of the claim
CDD	Claims Determination Deed	A standardised legal document for agreeing Senior claims
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 Financial Conduct Authority's client money rules and/or applicable client money distribution rules
CME	Client Money Entitlement	The entitlement to receive a distribution from the pre-Administration Client Money pool
Committee	Creditors' Committee	Creditors voted to represent the general body of creditors of LBIE to assist the Administrators in discharging their functions set out in the Insolvency Act
Higher Rate Claim	Higher Rate Claim	A Senior claim which is derived from one of the limited types of contract that may provide for a contractual right to interest at a rate higher than 8% simple but where such rate is not specified
HMRC	HM Revenue & Customs	Organisation of the UK government primarily responsible for the collection of taxes
House Estate/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 (England and Wales) Rules 2016	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in England and Wales
ISDA Master Agreement	International Swaps and Derivatives Association Master Agreement	Global trade association for over-the-counter derivatives standard documentation
LBB	Lehman Brothers Bankhaus A.G.	Affiliate entity subject to insolvency proceedings in Germany
LBH	Lehman Brothers Holdings plc	Affiliate entity subject to insolvency proceedings in the UK
LBHI	Lehman Brothers Holdings Inc.	Ultimate parent of the Lehman group, incorporated in the USA and formerly subject to Chapter 11 bankruptcy protection from 15 September 2008. The plan of reorganisation became effective on 6 March 2012
LBHI2	LB Holdings Intermediate 2 Limited	Affiliate entity subject to insolvency proceedings in the UK
LBI	Lehman Brothers Inc.	US broker-dealer Affiliate entity, incorporated in the USA which entered Securities Investor Protection Act 1970 trusteeship on 19 September 2008
LBIE	Lehman Brothers International (Europe) – In Administration	Private unlimited UK subsidiary of LBHI, acting as its main European broker dealer, subject to an administration order dated 15 September 2008

Abbreviation	Term	Definition
LBL	Lehman Brothers Limited	UK service entity for the Lehman UK entities. LBL was placed into Administration on 15 September 2008
LBNL	Lehman Brothers Nominees Limited	UK Affiliate entity that is a wholly owned subsidiary of LBIE
LBSF	Lehman Brothers Special Financing Inc.	Affiliate entity subject to insolvency proceedings in the USA
Lock-Up Agreement	Lock-Up Agreement	A legally binding agreement between LBIE, Wentworth and the SCG agreeing the heads of terms for the Surplus Scheme.
MCF	Mable Commercial Funding Limited	Affiliate entity subject to insolvency proceedings in the UK
Net Available Funds	Net Available Funds	The funds from which a distribution of Post-Administration Interest can be made under the terms of the proposed Surplus Scheme
Olivant	Olivant Investments Switzerland SA	A LBIE Senior creditor whose admitted Proof of Debt has been challenged by WSSD Sarl.
Pension Fund	Lehman Brothers Pension Scheme	Group pension scheme for employees of UK Lehman entities
Post-Administration Interest	Post-Administration Interest	Statutory interest payable pursuant to Rule 14.23(7) of the Insolvency Rules
Proof of Debt/POD	Proof of Debt or Statement of Claim	A formal document prescribed by the Insolvency Rules 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
Reporting period	Reporting period	15 September 2017 to 14 March 2018, the period covered by this report
Scheme of Arrangement	Scheme of Arrangement	Statutory procedure under Part 26 of the Companies Act 2006 for a court-approved agreement between a company and its creditors
Senior	Senior unsecured creditor	Unsecured, non-preferential, non-Shareholder, not subordinated creditor
Senior Creditor Group/ SCG	Senior Creditor Group	Collectively 3 respondents to the Waterfall II Application: Burlington Loan Management Limited, CVI GVF (Lux) Master SARL and Hutchinson Investors, LLC
Shareholder(s)	Shareholder(s) of LBIE	Formerly LBL and/or LBHI2; LBL ceased to be a LBIE member on 7 September 2017
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 Administrators
Specified Interest Claim	Specified Interest Claim	A Senior claim derived from a contract with a specified rate of interest greater than 8%
Subordinated Creditor	Subordinated Creditor	Wentworth Sons Sub-Debt S.a.r.l
Subordinated Debt	Subordinated Debt	The subordinated liabilities arising pursuant to 3 intercompany loan agreements entered into between LBIE and LBHI2, each dated 1 November 2006, and which have been assigned by LBHI2 to Wentworth
Surplus	Surplus	Assets remaining after the payment in full of Senior creditor claims and Shareholder claims but before Post-Administration Interest, non-provable claims, and the Subordinated Debt
Surplus Scheme	Surplus Scheme of Arrangement	A proposed Scheme of Arrangement, pursuant to the UK Companies Act 2006, providing a mechanism to distribute the surplus and settle the Waterfall Proceedings, details of which are expected to be circulated to creditors shortly
Trust Estate	Trust Estate	Client Assets and Client Money
UK Appeal Court	Court of Appeal of England and Wales	The second most senior court in the English legal system for civil cases. Permission to appeal is required, either from the lower court or the Court of Appeal itself
UK Courts	UK Courts	The UK High Court, the UK Appeal Court and the UK Supreme Court
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	Court of last resort and highest appellate court in the United Kingdom for civil cases
VAT	Value Added Tax	A consumption tax levied on the sale of goods and services in the UK
Waterfall	Waterfall	Waterfall I, II, III and IV legal proceedings
Waterfall I	Waterfall I	A joint application by LBIE, LBL and LBHI2 to the UK High Court issued on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders
Waterfall II Application/ Waterfall II	Waterfall II Application	An application to the UK High Court issued on 12 June 2014 seeking a further determination on issues that impact the rights of creditors to payment from the Surplus and the distribution of that Surplus in a timely manner

Abbreviation	Term	Definition
Waterfall II A	Waterfall II A	Tranche A of Waterfall II dealing primarily with insolvency law matters
Waterfall II B	Waterfall II B	Tranche B of Waterfall II dealing with matters concerning the effect of release clauses in post-Administration contacts
Waterfall II C	Waterfall II C	Tranche C of Waterfall II dealing with cost of funding matters, principally arising in respect of claims under ISDA Master Agreements
Waterfall III	Waterfall III	An application to the UK High Court issued on 25 April 2016 seeking a determination on issues relating to contributory claims
Waterfall IV	Waterfall IV	An application to the UK High Court issued on 28 November 2017 seeking the Court's directions regarding WSSD Sarl's request for a creditors' decision, pursuant to paragraph 56(1) of Schedule B1 to the Insolvency Act
Wentworth	Wentworth Joint Venture	A joint venture between Elliott Management Corporation, King Street Capital Management L.P., LBHI and LBH12 to align their interests in LBIE using vehicles including Wentworth Sons Sub-Debt S.a.r.l, a respondent to the Waterfall II Application, and Wentworth Sons Senior Claims S.a.r.l.
WSSD Sarl	Wentworth Sons Sub Debt S.a.r.l	A Wentworth-controlled company which issued the challenge to Olivant's Proof of Debt

Appendix E:

General website notice

In accordance with rule 1.50 of the Insolvency (England and Wales) Rules 2016 (IR16)

Notice of general use of website to deliver documents

(a) If the company is incorporated outside the UK or is an unregistered company comply with rule 1.6 IR16

Name of company Lehman Brothers International (Europe)	Company number (a) 02538254
In the High Court of Justice, Business and Property Courts of England and Wales Insolvency & Companies List (ChD) (full name of court)	Court case number 7942 of 2008

(b) Insert full names of officeholders

We (b) Anthony Victor Lomas, Russell Downs, Steven Anthony Pearson, and Julian Guy Parr, joint administrators of the company give notice that future documents in the administration, other than those set out in the Excluded Documents box below, will be made available to creditors, members and contributories for viewing and downloading on a website without notice. We will not be obliged to deliver any such documents to the recipient of this notice unless requested to do so by that person.

Excluded Documents:

This notice does not apply to the following documents which we will send to you or notify you by way of a specific notice that it is available for viewing and downloading on a website:

- (i) a document for which personal delivery is required;
- (ii) a notice under rule 14.29 IR16 of intention to declare a dividend; and
- (iii) a document which is not delivered generally.

The website address is (c) www.pwc.co.uk/lehman

(c) Insert website address

Documents will be available on the website until at least two months after the end of the administration or the last person to hold office as the administrator obtains their release.

You may at any time request a hard copy of any or all of the following:

- i) documents currently available for viewing on the website
- ii) future documents which may be made available there

(e) Insert postal address, telephone number and e-mail for hard copy requests

by (e) - writing to the address below; or
- telephoning Milan Veleba on +44 (0)20 3036 2000; or
- emailing generalqueries@lbia-eu.com(*)

(*) When submitting a request by e-mail, please include the creditor's / member's / contributories' name and postal address, if different from the address to which this notice was delivered.

Dated: 9 April 2018

Address for correspondence

Administrators' postal address: Lehman Brothers International (Europe), Level 23, 25 Canada Square, London E14 5LQ

Administrators' contact telephone number: +44 (0)20 3036 2000

www.pwc.co.uk/lehman

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