
Lehman Brothers International (Europe) – In Administration

Joint Administrators' seventeenth
progress report, for the period from
15 September 2016 to 14 March 2017

10 April 2017

Important notice

Status of Administration

A Surplus arises in the Administration and rights to payment from that Surplus are currently being determined through the Waterfall court proceedings.

Size of the Surplus

The precise amount of Surplus funds that will be available in due course remains uncertain. Due to commercial sensitivity, confidentiality and/or legal privilege, we are unable to provide detailed commentary on certain 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. No conclusion should be drawn or inferred from this report as to the way in which such claims will eventually be assessed or 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. LBIE, the Administrators, their firm, its members, partners, staff and advisers accept no liability to any party for any reliance placed upon this report.

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 significant elements of LBIE’s assets continue to be denominated in currencies other than sterling.

Rounding

Unless it is clear otherwise, the figures within the report are rounded to the nearest £10 million, consistent with previous reports.

Definitions

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

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Section 1:

Purpose of the Administrators' report

Introduction

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

This is the seventeenth such formal update to unsecured creditors and it provides details of progress made in the 6-month period from 15 September 2016 to 14 March 2017. The statutory receipts and payments accounts for the same period are attached at Appendix A.

Wherever possible, again, 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/services/business-recovery/administrations/lehman.html. Creditors who do not have intimate knowledge of matters being dealt with in the Administration by virtue of involvement in the Waterfall court proceedings, and who desire to better understand these matters, are advised 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.

We will host a 1-hour webinar on 27 April 2017, giving creditors an opportunity to hear a summary of the current circumstances of the Administration and activities that are planned for the next 6 months, and to participate in a question and answer session. Details of the webinar will be posted on the LBIE website in the usual way.

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 E.

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 efforts in support of the Administration.

Details of the current Committee members are listed in Appendix E.

Extension application

On 4 November 2016, the UK High Court granted an extension of the Administration to 30 November 2022.

Future report and updates

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

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

Signed:



AV Lomas
Joint Administrator
Lehman Brothers International (Europe)
In Administration

Section 2:

Progress report

Introduction

During the period we have continued to:

- i. address the reducing number of outstanding issues that will determine the eventual quantum of the Surplus remaining after payment of provable debts in full (the LBIE 100p estate);
- ii. progress the Waterfall and other legal proceedings that address Surplus entitlement and related withholding tax issues (the LBIE Surplus estate); and
- iii. manage Administration costs.

LBIE 100p estate

Whilst the vast majority of work required to be done to collect in LBIE's House assets and to agree and settle its Senior claims has been completed by now, we continue to resolve outstanding matters relating to:

- closing the Client Money estate and transferring residual funds to the House Estate (c.£960m - £1.19bn);
- recovering remaining amounts owing to LBIE (c.£300m - £820m);
- realising the value of remaining House securities (c.£30m - £50m);
- releasing provisions and indemnities (c.£(50)m - £(500)m);
- ascertaining a potential contribution claim and its realisable value against LBIE's Shareholders (£913m); and
- winding down LBIE's operations and resolving Surplus entitlements disputes (c.£(310)m).

Only after resolution of these matters will we know the size of the Surplus that will be available to creditors.

As a result of our efforts during the reporting period, the following initiatives are under way:

- LBIE is exploring an opportunity to resolve the long-standing litigation with AGR through a mediation process, in tandem with the continuing litigation process;
- LBIE's contribution claim against its Shareholders is a potential asset in the LBIE estate and the new Waterfall III Application addresses aspects of this claim. In parallel with the UK High Court proceedings, LBIE is exploring how the potential realisable value of such a claim may be safeguarded through a multi-Affiliate settlement which would enable the Waterfall III legal proceedings to end;
- the quantum and status of the BarCap claims against LBIE (and as a consequence, BarCap's claim against the Surplus) is now the subject of a UK High Court application with a first hearing scheduled for April 2018;
- LBIE continues to liaise with and monitor other Lehman estates (in particular MCF), where LBIE has a significant interest; and
- steps to close out and minimise exposure to potential tax liabilities and post-Administration indemnities continue.

LBIE Surplus estate

The Administrators' updated indicative Low and High case financial outcome scenarios indicate a slightly improved potential range of Surplus outcomes of between c.£7.04bn and c.£8.19bn (previously c.£6.9bn and c.£8.0bn, respectively). Entitlements to the Surplus remain to be determined through the Waterfall proceedings, if not otherwise settled through consensual agreement.

Waterfall proceedings

In the absence of a consensual settlement of the current disputes between creditors relating to Surplus entitlements, there is potential for all the Waterfall proceedings to make their way to the UK Supreme Court with final judgment on the last of these possibly not being handed down until 2021/2022. Significant value attaches to many of the disputed matters, making it difficult to gain a compromise of the different third parties' positions at this stage.

Waterfall I appeal

The UK Supreme Court Waterfall I appeal was heard in the period and judgment is awaited. Whilst all matters dealt with in the judgment will be important to further progress being made in the Administration, the Administrators will be particularly pleased when the status of both CCCs (c.£1.9bn) and the Subordinated Debt (c.£1.2bn) is clarified by the eventual judgment, when it is handed down.

Waterfall II tranches A & B appeal

A handful of relatively minor matters arose from these proceedings which were then dealt with separately. Judgment on the last of these supplemental matters was received in the period and a majority of the supplemental matters have now been added to the Waterfall II tranches A and B appeal to be heard in early April 2017. The 2 most significant matters being addressed in this appeal are the CRA/CDD alleged waiver of CCCs and the Bower v Marris dispute concerning the alternative treatment of LBIE 100p estate distributions as either payment of interest or of principal. Both of these matters have a value in excess of £1 billion.

Waterfall II tranche C Application

The UK High Court handed down judgment on the tranche C matters (cost of funding and related foreign law issues) in the period. Based on the ruling, our present assessment is that only a small number of counterparties will be entitled to Post-Administration Interest at a rate in excess of 8% simple p.a. (c.£0.2bn). This judgment is subject to appeal, with a hearing expected in 2018. Some creditors continue to argue that their cost of funding could be significantly higher than 8% simple p.a. which could give rise to total aggregate Post-Administration Interest claims that are billions of pounds more than the 8% simple p.a. calculation. As a result, there continues to be material uncertainty regarding the total quantum of Post-Administration Interest claims.

Waterfall III Application and related matters

The Waterfall III proceedings contain a number of interrelated issues. The most significant for LBIE's creditors are those that concern the ability of LBIE to make a contribution claim against its unlimited liability Shareholders (and the quantum and recoverability of such a claim). Such a claim arises in the event that the Surplus turns out to be insufficient to discharge all claims against it. The proceedings also concern the ability of Shareholders to set off their own claims against LBIE's contribution claim. In this latter regard, LBL's litigation with its former landlord could have resulted in a significant recharge to LBIE, but we are informed that the admissible value of the landlord's claim was settled in the period and LBIE does not believe a material recharge claim will now be made by LBL in respect of this matter.

Following an application by LBL, another Affiliate, LBH, was joined as a party to the proceedings. A Waterfall III case management hearing was held in early November 2016, at which it was directed that the matter should be divided into 2 tranches (A and B). A 6-day UK High Court hearing of tranche A matters (questions of law) was held in January/February 2017. Tranche B matters (questions of fact) will be subject to a separate 3-week hearing scheduled for mid-September 2017.

Potential contribution claim settlement

In parallel with the court proceedings, we have continued our dialogue with the Waterfall III respondents, together with LBHI and Wentworth (both of which have a financial interest in one or other of the Shareholders), to explore potential settlement options. LBIE's objective is to obtain as big a contribution towards any future shortfall against Surplus entitlements, as is possible. LBIE has modelled the range of potential contribution claim recoveries that it might make from LBL and LBHI2 and has explored the means by which those recoveries alternatively might be obtained through a settlement.

Those discussions are ongoing and an outline of the potential settlement terms has been posted to the LBIE website recently, for creditors' information and feedback.

Other related court proceedings

BarCap claims application

A case management hearing was held in late November 2016 in relation to the treatment of the BarCap claims against the LBIE House and Client Money estates and BarCap's related entitlement to claim against the Surplus. A direction was made that the hearing should be divided into 2 parts, with certain issues stayed for determination in a second hearing if necessary. The first 8-day hearing is scheduled to commence in mid-April 2018. The biggest financial issue at the heart of this matter is whether or not BarCap has a right to Post-Administration Interest on the \$777m claim against LBIE, which it recovered from LBI.

UK withholding tax directions application and related matters

A judgment was handed down in October 2016 which held that neither LBIE nor the Administrators have any obligation to deduct UK withholding tax from payments of Post-Administration Interest. This judgment is subject to HMRC's appeal, with a hearing scheduled for October/November 2017.

Dialogue is continuing with HMRC to determine if a pragmatic approach can be agreed to deal with the treatment of UK withholding tax if Post-Administration Interest were to be paid by LBIE before a final court ruling on this issue is handed down. We have discussed a variety of proposals with HMRC to deal with this matter while it is the subject of appeal but, to date, we have been unable to obtain HMRC's agreement to any of these. Without an agreement being found that satisfies both HMRC and the Administrators, this matter has the potential to affect any Surplus distribution.

Claim currency directions application

An application is in preparation for UK High Court directions on a particular claim that is held by one of the Waterfall respondents, where uncertainty exists concerning the relevant claim currency and the consequent impact on the quantum of its CCC could be in excess of £100 million.

Surplus entitlements claims resolution initiatives

We have continued our efforts to reduce the number of creditor counterparties with whom we will eventually need to agree the way in which Surplus entitlements will be dealt with. To that end, we continue to develop initiatives to enable holders of low value claims to exit the Administration notwithstanding our current inability to distribute any of the Surplus from the LBIE estate. We have done this by arranging auctions or offers which allow creditors to dispose of their claim in a way that is administratively less burdensome than trading their claim in the conventional secondary market for debt claims.

LBIE admitted claims auction

A third LBIE admitted claims auction was completed in December 2016, enabling further eligible Senior creditors with aggregate admitted claims of c.£190m to conclude their relationship with LBIE in respect of such claims on a voluntary basis by selling their claims, via LBNL, to an Aggregator.

LBNL employee offer

A small population of c.40 former overseas branch employees of LBIE was ineligible to participate in the previous LBIE admitted claims auction processes. Members of this population were instead made an offer, via LBNL, to sell their admitted unsecured claims in order to exit the Administration. By the offer deadline, 94% by offer value (c.£2m) had accepted.

Small deed offer

We have recently launched a new offer proposal, via LBNL, to a population of c.160, principally low value, Senior creditors to sell their admitted unsecured claims in order to continue to simplify the LBIE Surplus estate population.

Interim 'interest-only' distribution

We have continued to progress a CVA proposal to distribute, by way of an interim distribution, a material element of Senior creditors' basic entitlements to Post-Administration Interest (i.e. at the judgment rate of 8% simple p.a.). An outline of the key terms of the CVA proposal has been posted on the LBIE website recently for creditors' information and comment.

The success of this proposal will require the support of both the SCG and Wentworth, as both of these groups will have a blocking vote in a CVA proposal.

Certification of claims against the Surplus

In our last report, we commented that we were considering issuing the next Surplus entitlement statement containing our view on the cost of funding implications arising from the Waterfall II tranche C judgment. Having reflected on the judgment, LBIE is now unlikely to include a LBIE estimate of cost of funds and creditors should therefore anticipate that their own certification of cost of funds will be required at some

time in the future. We expect to publish some form of guidance and further insight into LBIE's position on cost of funding in the near future.

Consensual solution discussions and outlook

Pending receipt of the UK Supreme Court Waterfall I appeal judgment, we have perceived that there has been little appetite on the part of the Waterfall respondents to settle the Surplus entitlements matter consensually. We will explore this again after the judgment has been handed down.

Infrastructure and costs

The future duration of the Administration and the associated costs both continue to be dependent upon the eventual route taken and time required to resolve entitlements to the Surplus.

The headcount of LBIE staff and PwC staff has continued to reduce in the period and a further reduction is planned by July 2017. Costs continue to be on or below budget.

Indicative financial outcome (Section 3)

The improvement of c.£180m and c.£190m in the Low and High case outcomes, respectively, principally reflects a further appreciation in unrealised gains in receivables denominated in foreign currencies and, in the Low case outcome, c.£70m of priority claims reserves have also been released.

Pending the judgment from the Waterfall III Application or the conclusion of settlement discussions, the indicative financial outcome continues to take no account either of future recoveries from any potential contribution claim against LBIE's unlimited liability Shareholders or of those Shareholders' claims against LBIE.

Illustrative Surplus entitlements (Section 4)

We have refined our illustrative Surplus entitlements 'base case' analysis to incorporate the impact of the Waterfall II tranche C judgment received in the period, removing the need for us to continue presenting a hypothetical 'high cost of funding' scenario.

The assumptions that we have used to provide the 'base case' analysis, provided at page 15 in this report, otherwise remain largely unchanged from our previous report to creditors. However, certain adjustments have necessarily been made to reflect foreign exchange rate movements and to reflect the updated indicative financial outcome.

The 'base case' analysis now assumes that only a small number of Senior creditors will be entitled to Post-Administration Interest in excess of the judgment rate, in accordance with the recent judgment. The 'base case' now indicates that a Surplus 'excess' of c.£0.1bn would remain after payment of Post-Administration Interest and non-provable claims (CCCs and any interest thereon) before taking account of Shareholder claims.

This 'base case' analysis continues to assume:

- a BarCap Senior creditor claim amount of c.£80m/ c.\$150m being able to share in the Surplus, although BarCap also continues to assert an entitlement to Post-Administration Interest on \$777m that was paid to it directly by LBI, which could amount to c.£240m; and
- that the Waterfall judgments handed down to date will be upheld on appeal.

Other significant developments in the reporting period

House receivables

In the reporting period, c.£30m has been recovered, predominantly from Affiliates.

The majority of other Street recoveries being pursued are subject to legal proceedings. The largest such debt, owed by AGR, continues to be subject to US litigation.

Future recoveries from Affiliates are expected principally from ongoing distributions on agreed claims (notably MCF).

Costs of the Administration

We have updated our future Administration costs estimate to c.£310m in both the indicative Low and High case outcomes. The outcomes are based on identical assumptions, in particular that the Waterfall proceedings will involve an extended appeal process and the Administration will continue until 2022.

We continue to caution that the costs estimates remain subject to significant uncertainties regarding assumed outcomes and timings.

Priority claims

Priority claims include the potential liability for certain post-Administration indemnities that have been given by LBIE, and other potential claims (including tax) which may become payable.

In the period, c.£70m of reserves were released in the Low case outcome due to settlement with tax authorities, expiry of tax assessment periods, expiry of indemnities and work undertaken to finalise entitlements to the Pension Fund.

Senior creditors

One claim that had been subject to litigation was admitted in the period and 3 other claims were rejected or withdrawn. A new, low value, Affiliate claim was received and subsequently admitted in the period.

11 unresolved claims remain (Proofs of Debt totalling c.£540m), excluding claims received from Shareholders. Of these, the BarCap claim (c.£520m) and 2 claims that are the subject of legal proceedings (totalling c.£20m) represent more than 99% by value.

Client Assets

LBIE still holds client securities (c.£50m combined value) relating to certain debtors, pending conclusion of litigation 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 resolved.

Client Money

Unresolved CME claimants comprise:

- 2 claims of nominal value relating to debtor counterparties that are subject to litigation;
- 103 claims (c.\$6m) relating to non-engaging counterparties in respect of which a UK High Court application for directions will be required; and
- 14 other CME claimants (with combined claims of c.\$4m) who have received a partial recovery of their CME to date from the Client Money estate.

Efforts have been made to pay the remainder of their CME to the 14 partially paid claimants, but this has proved unsuccessful to date. A further settlement proposal is being developed by the House Estate to resolve this matter.

The uncertain status of the BarCap CME claim continues to block the final resolution of the pre-Administration Client Money estate. As a result, the timescale for closure remains uncertain.

Section 3:

Indicative financial outcome

Introduction

An updated summary of the indicative Low and High case financial outcome scenarios for Senior creditors 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 2017	Notes	Low £m	High £m	Difference £m
20	Cash deposits and government bonds		6,580	6,580	-
20	Add back: interim dividends paid		12,310	12,310	-
	Total cash in hand and returned to date		18,890	18,890	-
	Projected future movements				
10	Net Client Money benefit to the House Estate	1	960	1,190	230
10	House receivables	2	300	820	520
11	House securities	3	30	50	20
11	Future estimated costs	4	(310)	(310)	-
12	Priority claims [^]	5	(500)	(50)	450
	Total future cash expected to be recovered		480	1,700	1,220
	Funds available for Senior creditors		19,370	20,590	1,220
13	Senior creditors	6	(12,330)	(12,400)	(70)
	Surplus before Post-Administration Interest, non-provable claims, the Subordinated Debt and Shareholder claims		7,040	8,190	1,150

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

Based on the c.£6.58bn cash deposits and government bonds in hand at 14 March 2017, less the c.£0.81bn Low case reserve for future costs and priority claims, c.£5.77bn is the realised Surplus that is currently 'available' for distribution. This amount would increase to c.£6.70bn if the pre-Administration Client Money estate was fully resolved.

Low and High case movements in the period

The updated indicative Low and High case Surplus outcomes are c.£7.04bn and c.£8.19bn, representing increases of c.£180m and c.£190m, respectively, since our previous report. The principal changes in the indicative outcomes are:

	Low £m	High £m	Comments
Surplus as at 14 September 2016	6,860	8,000	
Movements in the period			
Net Client Money benefit to the House Estate	60	70	Mainly favourable unrealised foreign exchange movements
House receivables	10	50	Mainly favourable unrealised foreign exchange movements
House securities	10	20	Gain on security sales/valuation reassessment of remaining securities
Future estimated costs	10	10	Reduction in contingency reserves
Priority claims	70	20	Tax/indemnity/Pension Fund releases offset by adverse foreign exchange movements
Other	20	20	Mainly interest and dividend receipts together with foreign exchange translation differences
	180	190	
Surplus at 14 March 2017	7,040	8,190	

Assumptions and commentary

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

Note 1 - Net Client Money benefit to the House Estate

Pre-Administration Client Money estate	Low \$m	High \$m
Projected Client Money available to distribute¹		
Funds held at 14 March 2017 (in multiple currencies)	1,410	1,410
LBHI/LBB future recoveries ²	30	50
	1,440	1,460
Less future third party distributions		
Potential BarCap CME ³	(260)	-
Future distributions of retained CME claims ⁴ and estimated funds to be paid to the UK High Court ⁵	(10)	(10)
	(270)	(10)
Projected future distributions to the House Estate (\$m)	1,170	1,450
	(£m) 960	1,190

- 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.
- 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.

Potential BarCap CME

The Low case outcome scenario continues to assume that the BarCap maximum CME claim will be in the region of c.\$260m. This amount represents an agreed and reconciled gross CME claim of c.\$1.04bn less the \$777m paid to it by LBI, and includes c.\$150m 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 rather than a CME claim.

A number of simplifying assumptions have been made for the illustrations above. Full details of the BarCap claims are set out in the UK High Court filings which can be found on the LBIE website.

Note 2 - House receivables

House Estate receivables as at 14 March 2017, referred to below, are indicative only and significant matters remain unresolved, predominantly relating to litigation, which may materially impact this estimate.

House receivables	Rec'd in period £m	Indicative future recoveries	
		Low £m	High £m
Litigation			
AGR	-	-	400
Others	-	-	30
	-	-	430
Affiliates and branches			
MCF	10	240	290
LBIE Zurich branch	-	40	50
Other Affiliates	20	20	30
	30	300	370
Client Assets claimants	-	-	20
Receivables at 14 March 2017¹	30	300	820

- Excluded from the above are:
 - 12 counterparties with c.£70m 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
 - 2 claims with nominal values against insolvent/restructured debtors and 1 claim of c.£140m against another insolvent debtor. The c.£140m debtor is the subject of extensive litigation in overseas jurisdictions and the potential return to its creditors, including LBIE, is extremely uncertain.

AGR litigation

As previously reported, AGR filed a dispositive motion seeking summary judgment in its favour and the decision of the Supreme Court of the State of New York on the motion remains outstanding.

In the period, both parties agreed to pursue a mediation process in an attempt to resolve the dispute. Following preparatory work, the formal mediation procedure will take place imminently in New York.

The indicative Low case outcome assumes nil recovery from AGR and the indicative High case outcome assumes c.£400m, which represents full recovery of the LBIE expert's valuation of c.\$500m (net of unpaid premiums), excluding judgment rate interest that could be due on any award.

No account is taken of AGR credit risk and accordingly no credit value adjustment is reflected, should that become relevant. After such a credit value adjustment, a pre-interest claim value in excess of c.\$200m (c.£160m) would be appropriate, in the view of LBIE's expert.

Creditors are reminded that the eventual sum recovered could be anywhere within the indicated range and the Administrators are not at liberty to share any view on the amount of the eventual outcome in light of the litigious nature of this matter.

Others in litigation

There remains one ongoing Street debtor litigation action (excluding AGR) that is subject to US court action, where enforcement of a favourable US court judgment against a debtor domiciled in Saudi Arabia is now under way.

A Korean debtor is also subject to recovery proceedings. Following an unfavourable judgment at first instance from the Korean court, an appeal was lodged by LBIE in December 2016 with a first appeal hearing scheduled for 25 April 2017.

Further details are provided at Appendix C.

MCF

MCF forecasts future recoveries, including from the run-off of the portfolio of mortgage-related assets in its solvent subsidiaries, which should give rise to future distributions to LBIE of between c.£240m and c.£290m.

LBIE Zurich branch

The Swiss liquidators completed the liquidation process in August 2015 and submitted final reports which, following numerous revisions at the request of FINMA, were finally accepted by FINMA in late 2016. FINMA has advertised for creditors in these secondary proceedings and no new creditors have emerged.

FINMA advised us in December 2016 that it had completed the formalities of the local insolvency proceeding in relation to the LBIE Zurich branch, had prepared a final report, and now has certain other formalities to conclude before being in a position to remit surplus funds to LBIE. We continue to correspond with FINMA in order to gain release of the funds.

Other Affiliates

Recoveries in the period have been received from LBHK and LBSF. Expected future recoveries relate to further assumed distributions from LBSF and from other insolvent Affiliate estates.

Client Assets claimants

The indicative High case outcome assumes recovery of debts that remain subject to ongoing litigation in a German court. In the period, to advance a court determination of the quantum of the termination value owed to LBIE, both parties submitted expert reports to the court. A court hearing is scheduled for June 2017.

Note 3 - House securities

Securities	Book value £m	Low £m	High £m
Available for sale	30	20	40
Subject to litigation in Korea	10	10	10
House securities at 14 March 2017	40	30	50

c.£30m was realised from the sale of securities in the period, including equities returned from LBHK.

Further investigation of illiquid and low/no value securities has enabled us to revise upwards our High case outcome for remaining 'available for sale' securities by c.£10m.

All remaining securities 'available for sale' have specific issues attaching to them which will take time to resolve in order to realise value, albeit the majority of this remaining value rests in one position.

Note 4 - Future estimated costs

Summary costs	Legal £m	Admin. fees £m	Other £m	Total £m
Estimated costs by year				
2017	(30)	(20)	(20)	(70)
2018	(40)	(10)	(20)	(70)
2019	(10)	(10)	(10)	(30)
2020	(20)	(20)	(20)	(60)
2021	(10)	(20)	(10)	(40)
2022	(10)	(10)	-	(20)
	(120)	(90)	(80)	(290)
Costs accrued at 31 December 2016				(40)
Costs paid in period to 14 March 2017				20
Future estimated costs at 14 March 2017				(310)

The same assumptions have been made for the Low and High case outcomes reflecting continuing uncertainties regarding the future costs impact of the Waterfall proceedings, other counterparty litigation and the outcomes and timings of other matters.

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 key assumptions underlying the costs estimate remain consistent with the last progress report, namely:

- the litigation required to resolve the remaining disputed receivables and creditor claims will require due legal processes, involving hearings at first instance, appeals, delays and cost awards;
- a full court appeal process will be required to settle the Surplus entitlements matter (Waterfall I, II and III) culminating in the UK Supreme Court in each case;
- further Surplus directions hearings will be required; and
- the Administration and related processes will be completed by the end of 2022.

Note 5 - Priority claims

Priority claimants include the potential post-Administration indemnities and other claims (including tax provisions) that could crystallise in certain circumstances and would rank for payment in priority to Senior creditors. There were favourable movements in the period, summarised below.

	Low £m	High £m
Priority claims		
Reported as at 14 September 2016	(570)	(70)
Movements in the period		
Tax provisions releases	30	10
Post-Administration indemnities releases	40	-
Pension Fund provision releases	10	10
Foreign exchange movements	(10)	-
	70	20
Priority claims at 14 March 2017	(500)	(50)
Comprising		
Tax provisions	(220)	(30)
Post-Administration indemnities	(200)	-
Pension Fund provision	(20)	(20)
Other reserves	(60)	-
Priority claims at 14 March 2017	(500)	(50)

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 LBIE's position with the Italian tax authorities as a consequence of which we are able to release a provision of c.£10m in both the Low and High cases;
- released various other tax provisions of c.£20m in the Low case, as the relevant UK enquiry windows have closed;
- exchanged information with the IRS to further progress agreement of LBIE's US withholding tax liability; and
- continued dialogue with the Italian and French tax authorities seeking to ultimately agree tax repayments to LBIE.

Post-Administration indemnities

Indemnities have been provided to:

- 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
- LBNL in relation to the LBIE admitted claims auctions, LBNL employee offer and small deed offer.

In the period, a number of obligations fell away upon expiry of the term set out in the relevant contracts, enabling us to reduce provisions by c.£40m in the Low case outcome.

Pension Fund provision

In the period, work has focused on finalising outstanding issues relating to members' entitlements from the fund. This has enabled a release of c.£10m reserves.

The final summary of entitlements has been submitted to the insurance company with which benefits are being secured, and this has recently been agreed. This will enable a final payment to be made to the insurance company which, subject to factors outside its control, LBIE is planning to make in the next reporting period. Work will then focus on winding up the Pension Fund.

Other reserves

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

Note 6 - Senior creditors

Claims received from Shareholders are excluded from the Senior creditors analysis. The majority of pending unsecured claims by value are subject to litigation, and their eventual outcome may materially impact the estimates below.

	Admitted to date ¹ £m	Pending ²		Indicative outcome ³	
		Low £m	High £m	Low £m	High £m
Senior creditors					
Non-Affiliate creditors	(11,120)	(10)	(90)	(11,130)	(11,210)
Affiliate creditors	(1,160)	(10)	-	(1,170)	(1,160)
SCSO settled claims	(30)	-	-	(30)	(30)
Total	(12,310)	(20)	(90)	(12,330)	(12,400)

- Admitted to date includes claims agreed by Claims Determination Deeds and partial admittance letters where in certain cases legal challenge has been initiated by creditors on the balance of their Proof of Debt. The balance is included as a pending claim.
- In the period, a claim subject to litigation was admitted (revised Proof of Debt c.£1m) and 3 claims were rejected or withdrawn (Proofs of Debt totalling c.£2m). 1 new Affiliate claim (Proof of Debt of less than £1m) has been received in the period and admitted. Proofs of Debt relating to remaining pending claims total c.£540m (of which c.£520m relates to BarCap).
- The indicative outcome includes the total value of the claims admitted to date and the indicative Low/High case value of pending claims.

Assumptions

For all compliant Proofs of Debt received by the Administrators where the claim has not yet been admitted, withdrawn or rejected, we continue to make an appropriate reserve.

In a small number of cases, creditors have reverted to LBIE seeking to amend the value of their admitted claims. LBIE does not intend to reopen dialogue with individual creditors regarding their concluded Proofs of Debt and reserves continue to be made based on the amounts previously admitted with no increased exposures being assumed.

In the period, a UK High Court application was made by Lehman Brothers Australia Limited relating to its request to amend the value of its admitted claim. Further details are provided at Appendix C.

Low case outcome

The indicative Low case outcome makes provision for pending claims at Proof of Debt value, except for:

- a nil value for the BarCap claim, as in this scenario it is assumed to be withdrawn in favour of a CME claim; and
- a specific value assessment in respect of a claim that is in litigation (a c.£20m value reduction) and an Affiliate claim.

High case outcome

The indicative High case outcome assumes for pending claims:

- a value of c.£80m for the BarCap claim, being the value claimed less the \$777m payment made directly by LBI to BarCap;
- an assumed average settlement rate of 50% of the claim value (totalling c.£5m) for 2 claims (including one in litigation);
- a nominal value for 6 claims based upon an assumed average settlement rate at the claim value (a total value of less than £1m); and
- no reserve for other claims.

Pending claims status

11 creditors have submitted Proofs of Debt totalling c.£540m in response to which, due to specific legal, commercial and/or valuation issues, LBIE has yet to admit, reject or agree withdrawal.

The unresolved claims comprise:

- the BarCap claim (c.£520m);
- 2 claims that are subject to litigation either in the US or Italy (totalling c.£20m). Further details are provided at Appendix C;
- 1 Affiliate claim (claim value of nil); and
- 7 claims with combined claims of c.£2m where CME offers have been made but counterparties are currently unresponsive. Accordingly, these claims may require an application to the UK High Court in order to finalise them.

Section 4:

Illustrative Surplus entitlements and related court processes

Recap

A series of UK court proceedings is under way with the objective of determining entitlements to the c.£7bn-c.£8.2bn Surplus. Based on current judgments in those proceedings, claims against the Surplus rank in the following order:

- i. Post-Administration Interest;
- ii. non-provable claims (such as CCCs); and then
- iii. Subordinated Debt.

In the event that the Surplus is insufficient to pay in full all claims against it, LBIE is able to make a contribution claim against its unlimited liability Shareholders, LBL and LBHI2.

Each of the Waterfall court proceedings contains multiple important matters to be resolved, but the matters of most material financial significance are as follows:

Waterfall I – ranking of Subordinated Debt and existence of CCCs;

Waterfall II tranche A – Bower v Marris (allocation of LBIE's 100p estate distributions as interest or principal) and Post-Administration Interest start date;

Waterfall II tranche B – waiver of CCCs;

Waterfall II tranche C – cost of funding – Post-Administration Interest entitlement above 8% simple p.a.; and

Waterfall III – contribution claim.

Unless a commercial compromise can be reached in the meantime, these legal proceedings will likely need to run their natural course, through to the UK Supreme Court if appropriate, before it will be clear what creditor entitlements to the Surplus are and before any significant distributions can be made from it.

'Base case' entitlements

The Waterfall II tranche C first instance judgment was handed down in the period. Whilst elements of the judgment are subject to appeal, this represents the best guidance that the Administrators currently have as to how cost of funding and related foreign law matters should be determined.

Accordingly, we have revised the 'base case' illustration of how the Surplus eventually may be allocated between competing claims. Post-Administration Interest is now included based on the guidance provided by the recent judgment rather than restricted to 8% simple p.a. for all creditors, as in earlier reports. As a result, our alternative 'high cost of funding case' has been dispensed with in this report. Because the first instance judgment is still subject to appeal and there is a requirement for a certification process in due course, there does remain the possibility that the Post-Administration Interest outcome may be finally adjudicated materially above the 'base case' value.

In our October 2016 webinar, we presented our initial assessment of the impact of the judgment. We have now had time to consider its implications further and in greater detail and have made minor adjustments as a result. We expect to publish some form of guidance and further insight into LBIE's position in the near future.

BarCap claim assumption

The assumed available Surplus of c.£7.8bn (updated High case outcome of c.£8.2bn discounted by 5%) assumes that BarCap pursues and is paid a Senior claim of c.£80m/c.\$150m, being the value claimed less \$777m that it received from LBI (at 15 September 2008 US dollar exchange rate).

Accordingly, we have assumed that the same BarCap claim of c.£80m will be within the pool of claims on which both Post-Administration Interest will be paid and CCCs will be calculated, and therefore that no Post-Administration Interest will be paid on the \$777m amount that has already been received by BarCap from LBI. In the event that this assumption is incorrect, then the incremental claim against the Surplus by BarCap could be in the region of £240m.

Contribution claim assumption

The assumed available Surplus of c.£7.8bn will be increased by the net proceeds of any contribution claim against LBIE's unlimited liability Shareholders in the event that the currently estimated Surplus is insufficient to pay all claims against it in full. Because our updated 'base case' calculation suggests that such a shortfall might be limited only to the outstanding claims of Shareholders, no account is taken here of contribution claim recoveries. Discussions are currently under way with Shareholders that could give LBIE access to an amount up to £913m in order to fund such a shortfall, if the need arises. Further details of those discussions are available to creditors on the LBIE website.

Illustrative Surplus entitlements

Our illustrative 'base case' assumptions remain largely unchanged and are set out below, to demonstrate how the Surplus may be allocated between different categories of claimant:

- all Waterfall appeals will be unsuccessful;
- Post-Administration Interest is 8% simple p.a. for most creditors with only a small number able to claim a contractual cost of funding rate at an amount in excess of that;
- contractual interest accrues on CCCs and is not released by the CDDs but is released by the CRA;
- Senior claims are c.£12.4bn and no new Senior claims will be submitted to LBIE;
- no new disputes to LBIE's creditor claim disaggregation will be raised by creditors; and
- the eventual Surplus value will be c.£7.8bn.

The resulting illustrative 'base case' produces the following outcome:

- aggregate Post-Administration Interest claims of c.£5.2bn; followed by
- c.£1.9bn of CCCs plus c.£0.6bn of related non-provable contractual interest on CCCs; leaving
- c.£0.1bn available to pay a dividend against Shareholder (LBHI2 and LBL) claims and the Subordinated Debt claim.

In these circumstances, we assume that LBIE would not pursue a contribution claim against its Shareholders and that the remaining matters as between LBIE and its 2 unlimited liability Shareholders could be resolved through tripartite negotiation.

It should be noted that the remaining c.£0.1bn Surplus 'excess' would reduce to a 'shortfall' of c.£0.1bn in the event that BarCap were to successfully argue its entitlement to Post-Administration Interest on the sterling equivalent of the \$777m that it has recovered from LBI (referred to above).

The above analysis is provided for **illustrative purposes only**. The Administrators express no view as to the likelihood of this outcome materialising in due course.

LBIE admitted claims auctions

A third auction proposal was commenced in October 2016 to enable a majority of remaining Senior creditors (excluding those who are respondents to the Waterfall proceedings as well as certain other creditors) to potentially conclude their relationship with LBIE in respect of their participating claims. This involved participating creditors setting the selling price at which they would be willing to sell their claims and bidders deciding whether or not they were prepared to meet this price.

The auction was held in early December 2016, with c.£330m of Senior claims (102 in number) participating, and with c.£190m of Senior claims (92 in number) successfully being sold to enable the claimants to conclude their relationship with LBIE in respect of such claims. An average premium of 49% on admitted claim values was realised on these claims.

All 3 auctions have assisted with the simplification of the LBIE Surplus estate, as the admitted claims have been acquired by Aggregators who already hold LBIE admitted claims. Across the 3 auctions, c.£0.55bn of Senior claims were sold, enabling 453 individual claimants to conclude their relationship with LBIE.

LBNL employee offer

Due to a number of factors, a small population of former overseas branch employees of LBIE were unable to benefit from the opportunity to participate in the LBIE admitted claims auctions. To allow many of those former employees the opportunity to sell their admitted claims, LBIE has made a tailored offer to former employees, via LBNL.

Offer letters were sent to c.40 former employees (c.£4m of admitted unsecured claims) on 19 January 2017. By the offer deadline of 28 February 2017, 33 of those former employees had accepted the offer at a cost to LBIE of c.£2m.

Small deed offer

We have recently launched a proposal, via LBNL, to offer to a population of c.160, principally low value Senior claims below £0.5m, the opportunity to sell their admitted claims. If all were to accept the offer, Surplus entitlements of c.£16m would be transferred to LBNL for a distribution reflecting the overall third LBIE admitted claims auction outcome of c.93% of potential entitlements as set out in the second unsecured claim certificate.

Interim ‘interest-only’ distribution

We have continued to progress a proposal to make an interim distribution of a material part of Senior creditors’ basic entitlements to judgment rate (i.e. 8% simple p.a.) Post-Administration Interest. We would achieve this by using a CVA, the key terms of which have recently been made available on the LBIE website for creditors’ information and comment.

In the event that the proposal is not approved for this purpose, we will continue to consider other means by which we might make an interim ‘interest-only’ distribution. One of the benefits of a CVA is that it would enable the interim distribution to be maximised. Without a CVA, additional significant reserves would be required in respect of potential *Bower v Marris* and cost of funding Post-Administration Interest liabilities, which would materially reduce the funds available for distribution.

Certification of claims against the Surplus

As noted above, creditors should be aware that a certification process of some sort will be required, in due course, for claims against the Surplus.

Consensual solution discussions and outlook

We have continued to encourage Waterfall respondents to consider settlement of the Surplus entitlements disputes, outside of litigation, but to date there have been few signs of an immediate appetite to do that. We hope that as more Waterfall judgments are handed down by the UK courts, there may become more potential for a consensual solution.

Waterfall proceedings

Waterfall I appeal

The UK Supreme Court appeal on Waterfall I was heard in the period and judgment is awaited.

Waterfall II Application

The UK High Court handed down judgments on the tranche C matters (cost of funding and related foreign law issues) and the last of the 7 supplemental matters connected to tranches A and B. The judgments are summarised at Appendix B and the majority of the matters covered by the judgments are now subject to appeal.

Waterfall III Application

The Administrators issued the Waterfall III Application, to which a number of Affiliates were named as respondents, seeking directions on various contributory claims issues and other Affiliate matters including:

- the scope of any contribution claim LBIE may make against the Shareholders (LBL and LBHI2);
- the application of set-off in the context of any contribution claim;
- the nature and extent of the liability for any contribution claim as between the Shareholders (including rights of indemnity between them);
- certain aspects of inbound LBL claims against LBIE (and/or LBEL), including LBL's proposed recharge to LBIE of LBIE's own contribution claim against LBL; and
- further issues as to whether LBL has any liability in the capacity as a Shareholder of LBIE (for instance based on rectification of the LBIE share register).

Following LBL raising arguments that its share in LBIE should properly be treated as held by or for LBH (it was already alleged that such argument arises in relation to LBHI2), LBH was joined to the proceedings at a relatively late stage. The application has been divided into 2 tranches:

- Tranche A – issues concerning questions of law were dealt with at a 6-day hearing commencing on 30 January 2017; and
- Tranche B – issues concerning questions of fact are to be dealt with at a 3-week hearing scheduled to commence on 11 September 2017.

Other related court proceedings

BarCap claims application

Following the case management hearing on 29 November 2016, a timetable for position papers and witness statements was set in order to obtain UK High Court directions regarding how the BarCap claims into the LBIE House and Client Money estates should be treated. A direction was made that the hearing should be divided into 2 parts, with initial issues not reliant on evidence to be heard first. The first 8-day hearing is scheduled to commence on a date between 16 - 20 April 2018, with evidence-reliant matters stayed, to be dealt with at a later hearing if required.

The issues to be considered include:

- the 'threshold issue' (i.e. whether the debt claim that BarCap acquired from LBI benefits from Client Money protection) and the status of Korean trades in the context of CME (later hearing);
- 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 to a CME claim or to an unsecured claim (first hearing); and
- the extent to which BarCap has potential entitlements to claim against the Surplus (first hearing).

UK withholding tax directions application

A judgment was handed down on 11 October 2016 which held that neither LBIE nor the Administrators have any obligation to deduct UK withholding tax from payments of Post-Administration Interest. This judgment is subject to appeal by HMRC, which is scheduled to be heard on 31 October/1 November 2017.

Claim currency directions application

An application is in preparation for UK High Court directions on a particular claim that is held by one of the Waterfall respondents, where uncertainty exists concerning the relevant claim currency and where the consequent impact on its CCC calculation could be material. The 'base case' illustration on page 15 continues to assume the highest value potential CCC outcome in respect of this particular claim.

Court process timetable

Where appropriate, actual (**date**) and illustrative (half-year period) projected timelines are noted below for the Waterfall and other related court proceedings that are in train.

Matter	Key issues	Status	UK Appeal Court hearing	UK Supreme Court hearing ¹
Waterfall I	Ranking of Subordinated Debt Existence of CCCs Extent of potential contribution claim	All appealed by LBHI2/LBL/LBHI	Held	Held
Waterfall II tranches A & B	Application of unsecured dividends to principal or interest first Post-Administration Interest start date Existence of claims for interest on CCCs Release of CCCs by certain post-Administration contracts Supplemental questions on calculation of claims	Appealed by SCG/York Appealed by Wentworth Appealed by Wentworth	3 April 2017	H1 2019
		Appealed by Wentworth/ SCG/York	3 April 2017	H1 2019
Waterfall II tranche C	Impact of cost of funding on Post-Administration Interest claims Related foreign law issues	Appealed by SCG/ Goldman Sachs Int.	H1 2018	H1 2020
Waterfall III	Scope and set-off of any contribution claim against LBL/LBHI2 Disputed inbound claims from LBL to LBIE LBL proposed recharge to LBIE of the contribution claim	UK High Court hearings - Held/ 11 September 2017	H2 2019	H1 2021
BarCap claims	Treatment of claims from BarCap	UK High Court hearings - commencing between 16 - 20 April 2018 / H2 2018	H1 2020	H1 2022
UK withholding tax	Tax treatment of Post-Administration Interest	Appealed by HMRC	31 October 2017	H2 2019

1. Assumes all matters will be ultimately determined by appeal to the UK Supreme Court.

In each of the proceedings, the earliest that judgments should be expected to be handed down is in a period 3 to 6 months after the respective hearing dates.

Appendices

Appendix A:

Receipts and payments: cumulative and 6 months to 14 March 2017

House Estate receipts and payments: cumulative and 6 months to 14 March 2017

House Estate	Notes	Cumulative - 15 September 2008 to 14 September 2016 (GBP equivalent) £m	Period - 6 months to 14 March 2017 (GBP equivalent) £m	Cumulative - 15 September 2008 to 14 March 2017 (GBP equivalent) £m
Receipts				
Counterparties	1	12,266	26	12,292
Depot securities	2	10,111	31	10,142
Other receipts	3	3,317	17	3,334
Total receipts for the period		25,694	74	25,768
Payments				
Dividends paid	4	(12,304)	(2)	(12,306)
Administrators' remuneration and expenses	5	(1,000)	(13)	(1,013)
Payroll and employee costs	6	(635)	(10)	(645)
Legal and professional costs	7	(393)	(8)	(401)
Other payments	8	(4,684)	(8)	(4,692)
Total payments for the period		(19,016)	(41)	(19,057)
Net movement in the period		6,678	33	6,711
Foreign exchange translation differences [^]		(134)	7	(127)
Total balances	9	6,544	40	6,584
Less: Funds held subject to third party claims	10	-	(1)	(1)
Total House Estate cash deposits and government bonds		6,544[~]	39	6,583[#]

[^] At this stage in the Administration, material receipts and payments in foreign currencies other than US dollars are converted to sterling as soon as practicable after receipt. Where currency sums are held for a short period, small translation differences can arise. US dollar receipts will be used to fund, in part, CCCs in the event that they are ultimately decided to be admissible. If the UK Supreme Court Waterfall I appeal judgment were to overturn the UK Appeal Court and find CCCs to be inadmissible, we would exchange at least the majority of LBIE's US dollars into sterling.

[~] Balances held in foreign currencies at 14 September 2016 were c.\$62m and various other currencies c.£9m (equivalent).

[#] Balances held in foreign currencies at 14 March 2017 were c.\$115m and various other currencies c.£11m (equivalent).

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 in accordance with the Insolvency Act and Insolvency Rules; and
- were completed in accounts established and controlled by the Administrators.

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

1. Counterparties

Receipts in the period comprise:

- c.£24m of further distributions from Affiliates, principally from LBHK, MCF and LBSF; and
- c.£2m of further distributions from LBB, transferred from pre-Administration Client Money.

2. Depot securities

Net realisations of c.£31m relate to the disposal or redemption of securities and derived income from depot holdings, including c.£21m relating to securities recovered from LBHK.

3. Other receipts

Other receipts principally comprise:

- c.£13m of bank and bond interest received; and
- c.£4m of VAT repayments received from HMRC.

4. Dividends paid

c.£2m of unsecured 'catch-up' distributions were paid to creditors in the period as further claims were admitted or blockers to prior distributions were resolved, bringing cumulative distributions paid to 14 March 2017 to c.£12.31bn.

5. Administrators' remuneration and expenses

Payment deferral terms (as agreed with the Committee and referred to on page 32 of this report) account for differences between costs incurred and payments made in the period.

Out-of-pocket expenses of c.£1m were paid in the period.

6. 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.

7. 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.

8. Other payments

Other payments comprise:

- c.£4m of VAT paid on invoices;
- c.£2m of occupancy and infrastructure costs;
- c.£1m of overseas tax payments; and
- c.£1m of other net sundry payments and reclassifications.

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

	GBP equivalent £m
House Estate	
Short-dated bonds ¹	6,271
Short-term deposits ²	281
Interest-bearing accounts	17
Long-dated government bonds	15
Total	6,584

1. Average rate of return on bonds yet to mature (net of fund manager fees) of 0.197%.

2. Average rate of return for 6 months ending 14 March 2017 of 0.15% for sterling deposits and 0.72% for US dollar 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 5 key criteria:

- be headquartered in a sovereign state where the average long-term ratings from S&P, Moody's and Fitch are in the top 4 available tiers (AAA to AA-);
- 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);
- be a Prudential Regulation Authority or European Banking Authority approved counterparty; and
- have 5-year credit default swap prices, bond yields, equity volatility, capital buffers and financial ratios below a specified (prudent) threshold.

The counterparties are ranked in 3 tiers (1-3) based on their risk score (1 being least risky). To ensure diversification, counterparty limits are based on the tier to which they belong:

- 20% of funds under management with any single tier 1 or tier 2 bank; and
- 15% of funds under management with any single tier 3 bank.

In the period, funds were placed on short-term deposits/notice accounts for a maximum duration of 12 weeks with tier 1 banks, 8 weeks with tier 2 banks and 4 weeks with tier 3 banks.

Policy for bond portfolio

Eligible investments for the bond portfolios are short-dated 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.

10. Funds held subject to third party claims

This reserve relates to unpaid dividends on admitted unsecured claims.

**Post-Administration Client Money receipts and payments:
cumulative and 6 months to 14 March 2017**

Post-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 September 2016 (USD equivalent) \$m	Period - 6 months to 14 March 2017 (USD equivalent) \$m	Cumulative - 15 September 2008 to 14 March 2017 (USD equivalent) \$m
Receipts				
Affiliate-related		724	-	724
Other receipts		7,057	-	7,057
Total receipts for the period		7,781	-	7,781
Payments				
Transfers to the House		(2,772)	-	(2,772)
Affiliate settlements		(1,544)	-	(1,544)
Other payments		(3,497)	-	(3,497)
Total payments for the period		(7,813)	-	(7,813)
Net movement in the period		(32)	-	(32)
Foreign exchange translation differences [^]		43	(1)	42
Total third party balances[∞]	1	11⁻	(1)	10[#]

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

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

⁻ Balances held in currencies other than US dollars at 14 September 2016 were c.€10m.

[#] Balances held in currencies other than US dollars at 14 March 2017 were c.€10m.

Notes

1. Investment profile

Total balances

Post-Administration Client Money	USD equivalent \$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 2017

Pre-Administration Client Money	Notes	Cumulative - 15 September 2008 to 14 September 2016 (USD equivalent) \$m	Period - 6 months to 14 March 2017 (USD equivalent) \$m	Cumulative - 15 September 2008 to 14 March 2017 (USD equivalent) \$m
Receipts				
Client Money pool recoveries	1	2,215	30	2,245
Funds received for the House	2	75	2	77
Interest		13	3	16
Total receipts for the period		2,303	35	2,338
Payments				
Client Money interim distribution		(675)	-	(675)
Funds paid to the House	2	(74)	(2)	(76)
Legal costs		(10)	-	(10)
Total payments for the period		(759)	(2)	(761)
Net movement in the period		1,544	33	1,577
Foreign exchange translation differences [^]		(127)	(45)	(172)
Total balances	3/4	1,417[~]	(12)	1,405[#]

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

[~] Balances held in currencies other than US dollars at 14 September 2016 were c.£396m and c.€32m.

[#] Balances held in currencies other than US dollars at 14 March 2017 were c.£396m and c.€47m.

Notes

1. Client Money pool recoveries

Receipts in the period largely comprised:

- c.\$14m as an eleventh distribution from LBHI in respect of LBIE's guarantee claim; and
- c.\$16m as ninth and tenth distributions from LBB on LBIE's unsecured claim.

2. Funds received for/paid to the House

Distributions from LBB in euros, received into the pre-Administration Client Money bank account in the period, included distributions relating to the House unsecured claim against LBB. Accordingly, these funds were then paid to the House bank account.

3. Investment profile

Pre-Administration Client Money	USD equivalent \$m
Short-term deposits ¹	1,355
Interest-bearing accounts	50
Total	1,405

1. Average rate of return for 6 months ending 14 March 2017 of 0.12% for sterling deposits and 0.64% for US dollar deposits.

4. Currency denomination

In both the indicative Low and High case financial outcome scenarios for unsecured creditors of LBIE, the majority of remaining pre-Administration Client Money is assumed to transfer to the House Estate in due course. Because a significant part of pre-Administration Client Money is held in US dollars, this provides a material currency hedge against the value of CCCs, assuming such claims continue to be admissible as a claim against the Surplus. If the UK Supreme Court Waterfall I appeal judgment were to overturn the UK Appeal Court and find CCCs to be inadmissible, we will review the continuing merits of retaining pre-Administration Client Money in currencies other than sterling.

Appendix B:

Surplus-related court proceedings

Waterfall I UK Supreme Court proceedings milestones

Milestones in the current reporting period:

16 Sep. 2016	CVI GVF (Lux) Master SARL filed its respondent written case
17 Oct. 2016	4-day UK Supreme Court hearing

Milestones expected in future reporting periods:

Q2 2017	Judgment of the UK Supreme Court
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Waterfall II UK High Court/UK Appeal Court proceedings milestones

Milestones in the current reporting period:

5 Oct. 2016	Judgment of Mr Justice Hildyard handed down on tranche C issues and supplemental issue 1(a) (tranche A)
17 Oct. 2016	Order made by Lord Justice David Richards pursuant to his judgment in respect of the supplemental issues 1(b), 1(c) and 2-5 (tranches A & B)
8 Dec. 2016	Goldman Sachs International filed its grounds of appeal in respect of issues 11 and 12 (tranche C)
12 Dec. 2016	Supplemental hearing before Mr Justice Hildyard further to his judgment (tranche C)
16 Dec. 2016	Order made by Mr Justice Hildyard in relation to the judgment and supplemental matters (tranche C)
6 Jan. 2017	York filed its appellant's notice and grounds of appeal in respect of supplemental issue 1(a) (tranche A)
20 Jan. 2017	Senior Creditor Group and Goldman Sachs International filed their appellant's notices and grounds of appeal (tranche C)
31 Jan. 2017	Senior Creditor Group, Wentworth and York filed their appellant's skeleton arguments in respect of supplemental issues 1(b), 1(c) and 2-5 (tranches A & B)
28 Feb. 2017	Senior Creditor Group, Wentworth, York and the LBIE Administrators filed their respondent's skeleton arguments in respect of supplemental issues 1(b), 1(c) and 2-5 (tranches A & B)

Milestones expected in future reporting periods:

3 Apr. 2017	7-day UK Appeal Court hearing on tranches A & B issues (including supplemental issues) to commence
12 May 2017	Senior Creditor Group, Goldman Sachs and Hutchinson Investors, LLC to file their appellant's skeleton arguments (tranche C)
28 Jul. 2017	Wentworth to file its respondent's skeleton argument (tranche C)
H2 2017	Judgment of the UK Appeal Court to be handed down in respect of tranches A & B issues
H1 2018	5-day UK Appeal Court hearing on tranche C issues to commence

Waterfall III UK High Court proceedings milestones

Milestones in the current reporting period:

30 Sep. 2016	LBL Administrators filed their position paper
17 Oct. 2016	LBL Administrators filed their application notice in respect of their cross-application
17 Oct. 2016	LBL Administrators filed their application notice in respect of the LBH joinder application
4 Nov. 2016	Case management hearing and the hearing of LBL cross-application and LBL joinder application before Mr Justice Hildyard
11 Nov. 2016	LBL Administrators filed their supplemental position paper
18 Nov. 2016	Administrators of LBIE, LBHI2 and LBEL filed their position papers
16 Dec. 2016	LBH Administrators filed their position paper
21 Dec. 2016	Directions order following the case management hearing including dividing the matter into part A and part B issues
30 Dec. 2016	LBL Administrators filed their reply position paper
16 Jan. 2017	Pre-trial review hearing in respect of procedural steps for part A issues and further case management hearing for part B issues
23 Jan. 2017	Administrators of LBIE, LBL, LBHI2, LBEL and LBH filed their skeleton arguments for the part A issues hearing
27 Jan. 2017	Order made by Mr Justice Hildyard pursuant to the pre-trial review hearing for part A issues and the case management hearing for part B issues
30 Jan. 2017	6-day UK High Court hearing in respect of the part A issues
20 Feb. 2017	LBL Administrators filed their response to certain requests made by Administrators of LBHI2, LBEL and LBH

Milestones expected in future reporting periods:

17 Mar. 2017	LBH Administrators to file position paper in respect of part B issues
19 Apr. 2017	LBL Administrators to file position paper in reply to LBH Administrators' position paper in respect of part B issues
3 May 2017	LBL Administrators to file witness evidence
16 May 2017	LBL Administrators to file any expert evidence
7 Jun. 2017	Administrators of LBIE, LBHI2, LBEL and LBH to file witness evidence
16 Jun. 2017	Administrators of LBIE, LBHI2, LBEL and LBH to file any expert evidence
28 Jun. 2017	LBL Administrators to file any reply witness evidence
14 Jul. 2017	LBL Administrators to file any reply expert evidence
11 Sep. 2017	c.15-day UK High Court hearing in respect of the part B issues
H2 2017/ H1 2018	Judgment of Mr Justice Hildyard handed down on the part A and part B issues

UK withholding tax application UK High Court/UK Appeal Court proceedings milestones

Milestones in the current reporting period:

11 Oct. 2016	Judgment of Mr Justice Hildyard
13 Oct. 2016	Order made by Mr Justice Hildyard
1 Nov. 2016	HMRC filed its appellant's notice and supporting papers with the UK Appeal Court

Milestones expected in future reporting periods:

31 Oct. 2017	2-day UK Appeal Court hearing
H1 2018	Judgment of the UK Appeal Court

BarCap claims application UK High Court proceedings milestones

Milestones in the current reporting period:

23 Nov. 2016	Wentworth filed an application to be joined as a second respondent
29 Nov. 2016	Case management hearing before Mr Justice Hildyard
16 Dec. 2016	Order made by Mr Justice Hildyard pursuant to the case management hearing
20 Jan. 2017	LBIE Administrators filed their position paper in respect of the initial issues

Milestones expected in future reporting periods:

5 May 2017	BarCap and Wentworth to file their position papers in respect of the initial issues
2 Jun. 2017	LBIE Administrators to file their reply position paper
30 Jun. 2017	Parties to file and exchange witness statements from any witnesses of fact
28 Jul. 2017	Parties (if so advised) to file and exchange reply witness statements
22 Sep. 2017	Parties to file their expert reports
13 Oct. 2017	Parties (if so advised) to file their supplemental expert reports
10 Nov. 2017	Parties' experts to file a joint memorandum identifying the points of agreement and disagreement
16 - 20 Apr. 2018	c.8-day UK High Court hearing to commence

Waterfall I appeal judgment

Matter	UK Supreme Court judgment
Subordinated Debt ranks below Post-Administration Interest and non-provable claims	Pending
Subordinated Debt can prove on a contingent basis, such proof to be valued at zero pending payment in full of Post-Administration Interest and non-provable claims	Pending
CCCs exist and rank below Post-Administration Interest and pari passu with other non-provable claims	Pending
Post-Administration Interest accrued but unpaid in an administration is payable in a subsequent liquidation from the Surplus held by a liquidator	Pending
Shareholders' contribution claim liability extends to Post-Administration Interest and non-provable claims	Pending
LBIE may prove in the respective estates of its Shareholders in respect of contributory claims	Pending
The contributory rule does not apply – LBIE cannot refuse to admit Shareholders' proofs on the basis of the contributory rule	Pending
Contributory claims can be set off against Shareholders' proofs	Pending

Waterfall II Application tranche C (cost of funding and related foreign law issues) judgment

Matter	UK High Court judgment
What is meant by the 'cost of funding the relevant amount' in the default rate definition in the ISDA Master Agreements? In particular, is 'cost of funding' restricted to the cost of borrowing (i.e. debt) or can it also include the cost of other forms of funding (e.g. equity finance)?	A party's 'cost of funding' means its cost of borrowing the relevant amount under a loan transaction and does not extend to costs associated with any wider types of funding such as equity funding.
Whether a creditor's certification of a cost of funding is conclusive and/or how can such certification be constrained by good faith and rationality?	A creditor's certification of its 'cost of funding' is conclusive unless such certification (a) is made irrationally, (b) is made otherwise than in good faith, (c) contains a manifest numerical or mathematical error, or (d) does not fall within the scope of the expression 'cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount', as those words may be construed by the court.
Whether an assignee creditor can claim interest from LBIE at a higher rate than the rate that would have been payable to the assignor creditor had the assignment not taken place?	An assignee creditor cannot claim interest from LBIE at a higher rate than the rate that would have been payable to the assignor had the assignment not taken place.
Whether, as a matter of German law in the circumstances of LBIE's Administration, a creditor can obtain an award for damages for late payment of a debt (i.e. a close-out amount) in the form of a rate of interest? If so, whether such an award can constitute a 'rate applicable to the debt apart from the administration'?	As a matter of German law, a creditor cannot make a claim against LBIE for interest in respect of the late payment of the close-out amount. Even if such a claim did arise, it would not constitute a 'rate applicable to the debt apart from the administration' as any such right cannot be equated to a right existing as at the date of administration.

Waterfall II Application tranche A (insolvency law) - supplemental matters judgment

Matter	UK High Court judgment
1(a). Whether, and in what circumstances, for a provable debt that is a close-out sum under a contract 'the rate applicable to the debt apart from the administration' in Rule 2.88(9) includes a contractual rate of interest that began to accrue only after it became due and payable due to action taken by the creditor post-administration?	The words 'the rate applicable to the debt apart from the administration' include, in the case of a provable debt that is a close-out sum under a contract, a contractual rate of interest that began to accrue only after the close-out sum became due and payable due to action taken by the creditor post-administration.

UK withholding tax judgment

Matter	UK High Court judgment
<p>Whether the payment of Post-Administration Interest to creditors pursuant to Rule 2.88(7) is a payment of yearly interest for the purposes of section 874(1) of the Income Tax Act 2007, such that LBIE and/or the Joint Administrators may have an obligation to deduct a sum representing income tax pursuant to section 874(2) of the Income Tax Act 2007 from payments of Post-Administration Interest?</p>	<p>Payments of Post-Administration Interest pursuant to Rule 2.88(7) do not give rise to any obligation on the part of a company in administration or on the part of the company's administrators to deduct amounts representing income tax.</p>

Appendix C:

Other litigation summary

The following litigation is a matter of public record in the relevant legal jurisdiction noted below.

Counterparty	Claim amount/ (POD value)	Type	Commenced	Court	Court reference
AG Financial Products Inc.	\$500m/£(16)m	Debtor/Creditor	Nov. 2011	Supreme Court of the State of New York	653284/2011
SAAD Trading, Contracting and Financial Services Company	\$125m	Debtor	Jun. 2015	Supreme Court of the State of New York	652319/2015
Kumho Industrial Co. Limited	KRW72bn	Debtor	Jul. 2015	Seoul Central District Court	
Dietmar Hopp Stiftung GmbH	€26m	Trust debtors	Aug. 2010	German Supreme Court	BGH XI ZR 9/14
DH Besitzgesellschaft AG & Co KG					
Employee ¹	£(3)m	Creditor - rejection appeal	Dec. 2014	UK High Court	7942 of 2008
Lehman Brothers Australia Limited (in liquidation)	£(2)m	Creditor	Dec. 2016	UK High Court	7942 of 2008

1. The UK High Court proceedings have been stayed pending a determination by the Milan Labour Court.

Appendix D: Administrators' remuneration

Analysis of Administrators' remuneration by grade and work activity

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 2016) and the current period (to 31 December 2016), together with the forecast for the current and next period (to 30 June 2017).

	Prior actual		Current actual		Current forecast		Future forecast	
	1 January 2016 to 30 June 2016		1 July 2016 to 31 December 2016		1 July 2016 to 31 December 2016		1 January 2017 to 30 June 2017	
	Hours	£'000	Hours	£'000	Hours	£'000	Hours	£'000
By grade								
Partner	2,283	2,003	1,542	1,403	1,697	1,539	1,460	1,325
Director	4,041	2,830	2,956	2,056	3,762	2,629	3,486	2,361
Senior Manager	8,654	4,720	7,232	3,831	7,513	4,115	7,173	3,679
Manager	6,473	2,746	5,351	2,166	4,815	2,074	5,399	2,252
Senior Associate	6,412	1,763	6,110	1,758	3,689	1,103	5,179	1,568
Associate	2,142	403	4,498	535	971	212	1,304	283
Total	30,005	14,465	27,689	11,749	22,447	11,672	24,001	11,468
Average hourly rate		£482		£424		£520		£478
By work activity								
Resolution of the LBIE 100p estate	3,678	1,883	826	536	989	671	874	599
Surplus	5,268	3,014	5,861	3,264	6,508	3,747	8,805	4,788
Finance and reporting	5,143	2,230	2,935	1,359	2,718	1,276	2,885	1,315
Infrastructure ¹	15,916	7,338	18,067	6,590	12,232	5,978	11,437	4,766
Total	30,005	14,465	27,689	11,749	22,447	11,672	24,001	11,468

1. Infrastructure includes information technology, tax, VAT, 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 Jun 2016	Current period ended 31 Dec 2016	Current period ended 31 Dec 2016	Future period ending 30 Jun 2017
	Staff profile			
LBIE staff (including contractors) ¹	68	42	42	30
PwC staff ²	30	27	22	24
Ratio of LBIE to PwC staff	2.3	1.6	1.9	1.3

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

2. 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 2016, the LBIE resource reduced by 38% in line with the forecast, which reflects a reduction in the LBIE staff from 31 July 2016 as part of the Administration cost management programme. In the corresponding period, the PwC resource reduced by 10% compared to a forecast reduction of 27%, due to additional specialist forensics PwC resource being required as part of the preparatory work for the Waterfall III and BarCap claims matters (not foreseen at the time of the forecast preparation). This additional resource requirement will continue in the short term into 2017.

Administrators' remuneration in the current period

In the current time reporting period to 31 December 2016, total hours reduced by 8% compared to the period ended 30 June 2016; total costs in the same period reduced by 19%. The disproportionately higher reduction in cost reflects a change in the grade mix. As LBIE has become involved in legal procedures requiring discovery and disclosure of high volumes of data (Waterfall III and BarCap claims), additional junior forensic resource has been required resulting in a dilution of the grade mix and average cost per hour.

Actual hours and costs by work activity in the period are below or broadly in line with the forecast except for infrastructure costs. Infrastructure costs exceeded forecast principally as a result of the preparatory forensics work.

Administrators' remuneration forecast for the next period

The forecast 6-monthly time reporting period to 30 June 2017 indicates a 13% reduction in hours and a 2% reduction in costs compared with the current period. This reflects:

- a forecast increase in activity in support of Surplus hearings in 2017, deferred from 2016; offset by
- a forecast reduction in tax and pensions activity and forensics work related to the Waterfall III proceedings.

The forecast increase of 13% in the average hourly rate predominantly reflects a grade mix change, as forensic work related to the Waterfall III matter utilising more junior grades is completed during the next period.

Administrators' remuneration approval

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

Cumulative time costs accrued to 31 December 2016 are c.£981m. Total Administrators' remuneration and disbursements paid to 14 March 2017 are c.£1.01bn.

Time costs incurred in the period from 1 January 2017 to 14 March 2017, not reported in detail on page 31, are c.£5m. A full analysis of these costs will be included as part of the 6-month period to 30 June 2017 in the next progress report.

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

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:

<http://www.icaew.com/~media/Files/Technical/Insolvency/creditors-guides/a-creditors-guide-to-administrators-fees-010407.pdf>

You can also get a copy free of charge by telephoning Lesley Bingham on 0203 036 2661.

Approvals by the Creditors' Committee

The Committee will shortly review and be requested to approve all time costs for the year to 31 December 2016, including the deferred element relating to 2016 that was agreed to be subject to Committee review in early 2017.

The Committee will also be requested to provide final approval of remuneration arrangements for 2017, including an increase in hourly charging rates to be effective from 1 July 2017.

The Committee has been provided with Category 2 disbursement information relating to the 6-month period to 30 September 2016 amounting to £404,707, with Category 2 disbursements of £672,703 being approved for payment in the reporting period relating to the 9-month period to 30 September 2016.

In addition, Category 1 disbursements incurred in the 6-month period to 31 December 2016 amounted to £203,315, with £321,885 paid in the reporting period relating to the 9-month period to 31 December 2016.

Appendix E:

Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court Court case number 7942 of 2008
Full name:	Lehman Brothers International (Europe)
Trading name:	Lehman Brothers International (Europe)
Registered number:	02538254
Registered address:	Level 23, 25 Canada Square, London E14 5LQ
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson (both appointed 15 September 2008), 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 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 F:

Glossary of terms

Abbreviation	Term	Definition
Administration	Administration	UK corporate insolvency process governed by the Insolvency Act 1986 applicable to LBIE following the granting of an administration order dated 15 September 2008
Administrators	Joint Administrators	AV Lomas and SA Pearson were appointed as Joint Administrators of LBIE on 15 September 2008. 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
Affiliates	Affiliate entities	Various subsidiaries and affiliates of Lehman Brothers Holdings Inc.
Aggregator(s)	Aggregator(s)	Holder of a Senior claim who invests in the acquisition of other Senior claims
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
Claims Determination Deed	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
CRA	Claim Resolution Agreement	The claim resolution framework which governs the return of Client Assets. The CRA was proposed by the Administrators to clients in November 2009 and was accepted by over 90% of eligible Client Assets claimants
CVA	Company Voluntary Arrangement	Insolvency procedure as set out in the Insolvency Act and Insolvency Rules which allows a company to come to an arrangement/compromise with its creditors over the payment of its debts
FINMA	FINMA	Swiss Financial Market Supervisory Authority FINMA
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 Rules 1986	Statutory rules that provide the legal platform for matters relating to personal and corporate insolvency in the UK
IRS	Internal Revenue Service	A bureau of the Department of the Treasury of the United States federal government with responsibility for collecting taxes and the interpretation and enforcement of the internal revenue code
ISDA 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
LBEL	Lehman Brothers Europe Limited	Affiliate entity subject to insolvency proceedings in the UK
LBH	Lehman Brothers Holdings plc	Affiliate entity subject to insolvency proceedings in the UK

Abbreviation	Term	Definition
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
LBHK	Lehman Brothers Hong Kong	Collective group of affiliate entities subject to insolvency proceedings in Hong Kong: Lehman Brothers Asia Holdings Ltd, Lehman Brothers Commercial Corporation Asia Ltd, Lehman Brothers Asia Capital Company Ltd, Lehman Brothers Securities Asia Ltd, Lehman Brothers Futures Asia Ltd, Lehman Brothers Asia Ltd and Lehman Brothers Nominees (H.K.) Ltd
LBI	Lehman Brothers Inc.	US broker-dealer affiliate entity, incorporated in the USA which entered SIPA trusteeship on 19 September 2008
LBIE	Lehman Brothers International (Europe) – In Administration	Private unlimited UK subsidiary of LBHI, acting as its main European broker dealer, subject to an administration order dated 15 September 2008
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
MCF	Mable Commercial Funding Limited	Affiliate entity subject to insolvency proceedings in the UK
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 2.88(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
SCSO	Small Claims Settlement Offer	An initiative under which creditors with agreed claims up to £150,000 were offered a one-off payment of 90% of their agreed claim in full and final settlement
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	LBL and/or LBHI2
SIP 9	Statement of Insolvency Practice 9	Rules issued by the Joint Insolvency Committee which provide guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, <i>inter alios</i> , administrators
SIPA	Securities Investor Protection Act 1970	A US legal proceeding for handling the liquidation of a broker-dealer
Street	Street counterparties	Third party counterparties consisting of financial institutions, including asset managers, custodians and banks; and non-banking financial institutions, including pension funds and corporate entities
Subordinated Debt	Subordinated Debt	The subordinated liabilities arising pursuant to 3 intercompany loan agreements entered into between LBIE and LBHI2, each dated 1 November 2006, and which have been assigned by LBHI2 to the Wentworth joint venture companies
Surplus	Surplus	Assets remaining after the payment in full of Senior creditor claims and before Post-Administration Interest, non-provable claims, the Subordinated Debt and Shareholder claims
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 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 and III legal proceedings

Abbreviation	Term	Definition
Waterfall I Application/ Waterfall I	Waterfall I Application	A joint application by LBIE, LBL and LBHI2 to the UK High Court issued on 14 February 2013 seeking a determination on statutory interest priority, contribution rights and other issues relating to LBIE and its Shareholders
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
Waterfall III Application/ Waterfall III	Waterfall III Application	An application to the UK High Court issued on 25 April 2016 seeking a determination on issues relating to contributory claims
Wentworth	Wentworth	Wentworth Sons Sub-Debt SARL, a respondent to the Waterfall II Application
York	York	York Global Finance BDH, LLC, a respondent to the Waterfall II Application

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