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# *Lehman Brothers Limited – In Administration*

Joint Administrators' progress  
report for the period 15 March 2018  
to 14 September 2018

05 October 2018

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# Section 1 Purpose of the Joint Administrators' progress report

## Introduction

This is the 20<sup>th</sup> progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Limited ("LBL" or the "Company").

This report provides an update on the work that the Administrators have undertaken, with particular focus on the progress between 15 March 2018 and 14 September 2018 (the "reporting period").

## Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for LBL's creditors as a whole than would be likely if LBL were wound up (without first being in administration).

The specific aims of this Administration have included:

- Realise all assets of LBL, where value may exist;
- Provide ongoing employee and infrastructure support to the Lehman Brothers Group of companies (the "Group") that are in Administration in exchange for appropriate reimbursement;
- Mitigate, so far as possible, any further liabilities against LBL by the transfer or termination of contracts; and
- Adjudicate the claims of creditors and pay distributions to creditors with admitted claims.

## Creditors' Committee

The Administrators regularly meet with the Creditors' Committee (the "Committee") to explain how key aspects of the Administration are being dealt with and to consult with the Committee on critical issues.

To date, the Administrators have held 28 meetings with the Committee. The next meeting is yet to be formally confirmed, but is planned to be held before the end of the year.

## Outcome for unsecured creditors

Creditors will recall that before the commencement of this reporting period the Administrators had paid:

- a dividend of 100p in the £ to former employees on admitted preferential claims (comprising claims for unpaid wages and holiday pay);

- two dividends totalling 100p in the £ on admitted ordinary unsecured claims; and
- a first interim dividend of 77.44p in the £ on admitted subordinated claims ranking ahead of statutory interest.

During the reporting period the Administrators have paid a second dividend of 22.56p in the £ on such subordinated claims, bringing the total to 100p/£.

In addition, an interim distribution to preferential, unsecured and subordinated creditors of 31.4% of creditors' respective entitlements to interest for post-Administration periods ("statutory interest") was declared on 13 September 2018. At present the quantum and timing of any further distribution in respect of statutory interest is unknown.

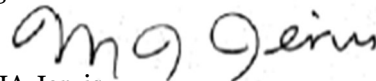
## Changes of administrator

On 26 July 2018, the Court granted the Administrators' application for an order that Gillian Bruce, Russell Downs and Edward Macnamara be appointed as additional Joint Administrators of LBL.

## Future reports

The Administrators will circulate their next report to creditors in approximately six months.

Signed



MJA Jervis  
Joint Administrator  
Lehman Brothers Limited

*MJA Jervis, Z Hussain, GE Bruce, R Downs and EJ Macnamara were appointed as Joint Administrators of Lehman Brothers Limited to manage its affairs, business and property as agents without personal liability. The Joint Administrators are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>. The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. Further details are available in the privacy statement on the [PwC.co.uk](https://www.pwc.co.uk) website or by contacting the Joint Administrators.*

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## ***Section 2 Joint Administrators' actions to date***

Creditors will be aware that before the Administration, LBL held most of the UK service and employee contracts on behalf of the Group, and provided all HR, IT, property, accounting and other services for the Group in the UK and Europe.

Following the Administrators' appointment, LBL continued to provide services to the other UK based Lehman Brothers Companies that are in Administration (the "Lehman Administration Companies"). On 31 May 2013, the Administrators agreed with Lehman Brothers International (Europe) ("LBIE") and other Lehman Administration Companies to transfer to LBIE the then continuing services and the c. 400 retained employees.

Throughout the Administration the Administrators have utilised specialist teams from their firm PricewaterhouseCoopers LLP ("PwC"), who have worked with retained LBL and latterly LBIE employees to ensure that LBL's operations are properly coordinated and the objectives of the Administration are met.

As at the date of the Administration, LBL's primary assets included inter-company receivables, tax refunds, IT assets and fixtures & fittings. The management and realisation of these assets have been undertaken by separate work stream teams (e.g. the Intercompany team) to maximise the outcome for LBL's creditors as a whole.

Key progress from 15 March 2018 to 14 September 2018 includes:

- A second distribution of 22.56p in the £ to subordinated creditors ranking ahead of statutory interest, bringing the total distributed to this class of creditor to 100p in the £;
- Participation in a coordinated declaration of distributions and dividends by a number of Lehman Group entities, enabling Lehman Brothers Holdings Plc ("LBH Plc") to pay an additional dividend of 18p/£ on LBL's claim for £709m;
- Enabling LBL to declare an interim distribution of 31.4% of preferential, unsecured and subordinated creditors' respective entitlements to statutory interest;
- Continued adjudication of claims of ordinary unsecured creditors, the payment of further catch-up dividends and the re-issue of returned dividends totalling £0.3m; and

- Continued to review evidence in relation to the ranking of subordinated debt in Lehman Brothers Intermediate Holdings 2 Ltd (in Administration) ("LBHI2"), which may materially impact realisations in LBL's major debtor, LBH Plc, and applied to be joined to an application to Court for directions in respect of subordinated debt ranking issues in LBHI2 and LBH Plc and related matters.

### ***Receipts and payments account***

The receipts and payments account at Section 7 shows cash held increasing by £14.5m to £156.6m in the reporting period. Key movements include:

- Intercompany debtor recoveries of £140.2m;
- VAT of c.£3.4m recovered in LBL's capacity as the representative member of the VAT group; and
- Payments of dividends to creditors of £0.3m and of statutory interest of £121.7m, further payments will be made in October 2018.

As set out in earlier Progress Reports, all of the Company's assets are uncharged, there being no secured creditors.

The receipts and payments account does not show "estimated to realise" values from the directors' statement of affairs as this would not provide a meaningful comparison with actual asset recoveries. Given the nature of the Company's assets and ongoing realisations, the Administrators are not in a position to provide an estimate of the final outcome for creditors.

### ***Statement of expenses***

A statement of expenses incurred in the reporting period and an estimate of future expenses is set out at Section 8.

### ***Investigations and actions***

No matters have come to the Administrators' attention during the period under review to suggest that they need to do any further work pursuant to their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

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## 2.1 Intercompany balances

### Overview

As set out in previous reports, the global nature of the Lehman business, with highly integrated trading and non-trading relationships across the Group, led to a complex series of intercompany positions at the date of Administration. These included 289 debtor and creditor balances between LBL and the rest of the Group, representing at book value £1.2bn of receivables and £0.7bn of payables. Of these, c. £1.1bn (>90%) of receivables related to five relationships. In addition, LBL held guarantees from Lehman Brothers Holdings Inc (“LBHI”) in respect of claims against some other Group companies.

As a service company, LBL recharged to other Group companies the costs it incurred in the provision of services. In excess of 95% of such costs were charged to either LBIE or Lehman Brothers Europe Limited (“LBEL”).

### Progress

As creditors may recall from Progress Reports for earlier periods, the Waterfall III settlement provided that the final account balances between LBL and LBIE, and LBL and LBEL, were to be agreed at nil and £282.2m respectively.

Material developments in the period include:

- LBL entered into an agreement with LBEL, LBHI2, LBH Plc and certain other Lehman Group entities to coordinate the payment of dividends and distributions;
- LBL is the largest creditor of LBH Plc by value, with an admitted claim of £709m. LBH Plc declared a further interim dividend to its creditors, including LBL, which received £131.8m on 13 September 2018. This brought the total amount paid by LBH Plc to date to 87.63p in the £;
- As creditors are aware, a Plan of Reorganisation of LBHI and the other Affiliates in US Chapter 11 proceedings became effective on 6 March 2012. Distributions of \$1.4m were received in the reporting period on an allowed claim in LBHI. The total recovery from this claim remains uncertain with the most recent distribution during the reporting period received on 6 April 2018. Further distributions are anticipated on a six monthly basis (subject to the comments below);

- £6.456m and £475k were received from the estate of Lehman Brothers ODC3 Limited by way of fifth and sixth distributions;
- £153k was received from the estate of Eldon Street Holdings Limited by way of eighth and ninth distributions; and
- A number of smaller recoveries have been received from group companies in a variety of jurisdictions, and further recoveries are anticipated.

Approximately 20 other Group balances continue to be monitored and progressed where there remains a reasonable prospect of future realisations.

The allowed claim in LBHI relates to historical liabilities to LBL of certain other Lehman Brothers companies, including LBH Plc. The allowed claim is, under the terms of the LBHI Plan of Reorganisation, subject to a “clawback” mechanism and is triggered where recoveries exceed the value of certain claim amounts. It is agreed that the “clawback” mechanism has not yet been triggered in respect of LBL, but the basis of calculation of sums payable under the “clawback” mechanism remains subject to continuing discussion with LBHI; certain other Lehman UK Group entities (also parties to the Plan of Reorganisation) are conducting similar discussions.

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## **2.2 Waterfall proceedings and other litigation**

The “Waterfall” proceedings generally relate to the quantum and ranking of claims in the estates of a number of the UK Lehman companies.

As set out in earlier Progress Reports the Waterfall I and III proceedings have concluded. Creditors are referred to those earlier Progress Reports should they require further information.

The Waterfall II proceedings, to which LBL was not a party, were settled in the reporting period.

### ***Subordinated claims in LBHI2***

As set out in the 19<sup>th</sup> Progress Report, LBL’s largest remaining debtor, LBH Plc, has a number of assets, which it has yet to realise, the largest of which is a subordinated claim in LBHI2.

LBHI2 has received material additional funds in the period following settlement of the Waterfall II proceedings, and is now in a position to pay distributions to its creditors with subordinated claims.

In addition to the subordinated claim from LBH Plc described above, there is another material subordinated liability in LBHI2. It is yet to be determined whether the two subordinated claims rank equally (*pari passu*), or if one or the other ranks first. The answer to that question will have a material impact on realisations in LBH Plc and in turn, in LBL as the major unsecured creditor of LBH Plc.

The Administrators of LBHI2 have issued an application to the High Court for directions in relation to the ranking of the two subordinated claims in LBHI2. There is a similar issue in LBH Plc, and the Administrators of LBH Plc have likewise issued an application to the Court for directions; the two issues being related, the applications will be heard by the Court together. LBL’s claim in LBH Plc is senior to the subordinated claims in that company and hence that application is not immediately relevant to LBL.

In the course of the Waterfall III litigation, LBL’s Administrators and legal advisers extracted a very large number of documents from the Lehman Group archives and assembled these into searchable form. This material included documents potentially relevant to the ranking of subordinated claims in LBHI2. Accordingly arrangements were made for the documents to be made available and further searched, using specialist forensic resources.

The Administrators have engaged extensively with solicitors and Counsel to ascertain how best to approach LBHI2’s application for directions, the principle objective being to ensure that all arguments that could properly be made in favour of LBL’s position are made to the Court, and that all potentially relevant documents are identified and made available to the parties and the Court.

To that end, the Administrators applied for LBL to be joined to LBHI2’s application for directions. The Court declined to order that LBL be joined. However, the Administrators have continued to engage with the Administrators of LBH Plc and LBHI2, and with LBHI which has a material financial interest in the outcome of the subordination questions.

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## **2.3 Creditor claims and dividend prospects**

### ***Preferential creditors***

As creditors are aware from previous reports, a dividend of 100p in the £ has been paid to preferential creditors whose claims have been admitted.

### ***Unsecured and subordinated creditors***

Creditors are also aware from previous reports that the following interim dividends have been paid to ordinary unsecured creditors whose claims have been admitted:

- a first interim dividend of 1.66p in the £ was declared and paid in December 2014; and
- a second dividend of 98.34p in the £ was declared and paid in September 2017.

Additionally, a first interim dividend of 77.44p in the £ was declared and paid in September 2017 on subordinated claims ranking ahead of statutory interest. During the reporting period a second dividend of 22.56p in the £ was declared on such claims, bringing the total paid to 100p in the £.

### ***Interest for post-Administrations periods (“statutory interest”)***

On 13 September 2018 an interim distribution was declared in respect of interest for post-Administration periods, being 31.4% of the entitlements to such interest of preferential creditors, unsecured creditors and subordinated creditors with claims ranking ahead of statutory interest.

### ***Claims agreement***

The Administrators’ Notice of Intended Dividend dated 6 August 2018 gave notice that the last date for proving for claims was 28 August 2018. As such the deadline for submitting claims has passed and the Administrators are not obliged to adjudicate claims submitted after that date.

A number of additional or amended claims were submitted before 28 August. Work has continued to review and adjudicate twenty-six claims totalling £18.7m.

### ***Employee claims***

The Administrators have continued to correspond with a small number of former employees regarding the adjudication of their claims.

The Administrators had also written to nine former employees with outstanding Employment Tribunal (“ET”) claims who have not responded to previous correspondence.

One former employee subsequently withdrew their ET claim and another has claimed in the Administration. The remaining seven former employees have not responded to repeated efforts to engage with them and the Administrators have therefore applied to the relevant ET to strike out their claims.

### ***Catch up dividends***

It is the Administrators’ policy to make periodic “catch up” dividend payments to creditors when further claims are agreed. During the reporting period, further catch-up dividends, along with re-issued dividends have been paid totalling £0.3m. The level of newly adjudicated claims will be kept under review and further catch up dividends paid will be paid in October 2018. Any future catch up payments will be made at a time when it is economically viable to do so.

### ***Claim reserves and dividend prospects***

The Administrators continue to reserve for claims not yet finally adjudicated.

The quantum and timing of any further payments in respect of post-Administration interest are currently uncertain and will depend on progress in addressing claims reserved for, and additional realisations principally from LBL’s claim in LBH Plc.

### ***Issues and priorities***

The Administrators’ priorities in relation to creditor claims for the next six months are to continue to review and adjudicate outstanding unsecured claims.

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## 2.4 Tax planning and compliance

### Overview

Prior to entering Administration, LBL coordinated the Group corporate tax, VAT and PAYE affairs. Since Administration, this role has diminished but LBL continues to act as representative member of the Lehman Administration Companies VAT group and coordinates the historic Group loss allocation for corporation tax purposes.

### Progress

Specific progress in the reporting period includes:

#### Corporation Tax

- Filing of the 2016 group relief return;
- Preparation of the 2017 tax return – including review of recent tax legislative changes with regards loss restriction rules and corporate interest deductibility rules;
- Providing tax support to determine the appropriate tax reserves for the coordinated declaration of dividends and distributions, including the appropriate tax treatment of dividends paid to former employees;
- Considering and advising in relation to the application of withholding tax (“WHT”) to payments of statutory interest;
- Liaising with HMRC to obtain clearance that payments of statutory interest to former employees are subject to WHT and not employment taxes;
- Meetings with HMRC to agree HMRC’s pre-administration claim principally in respect of employment-related taxes, including set off of corporation tax refunds due;
- Advising on the potential tax impacts of the appointment of additional Administrators, including drafting and reviewing relevant elements of witness statements in support of the application for such appointments;
- Compliance with the Administrators’ responsibilities under Senior Accounting Officer legislation; and
- Adherence to the UK Corporate Criminal Offence legislation and tax reporting requirements.

### VAT

- All VAT returns have been submitted up to, and including, the quarter ended May 2018.
- Since the last report to creditors, LBL has received repayments from HMRC for the February 2018 and May 2018 quarters totalling c. £3.4m. This will be distributed to the VAT group in due course.

### PAYE and other employment taxes

- As previously reported, LBL was the employer in relation to certain “Employment Benefit Trusts” (EBTs) in respect of which a number of complex tax issues arise. An ‘Offer of Settlement’ was agreed with HMRC to resolve many of the issues, which was accepted by all except five of the former Lehman employees who are beneficiaries of the EBTs. Discussions continue with HMRC and the Trustees of the EBTs to establish a final position in relation to liabilities in respect of the remaining five individuals.
- HMRC have submitted an amended unsecured claim in the Administration and there is ongoing dialogue in relation to a number of more complex elements of that claim, which includes a claim for inheritance tax (“IHT”) arising in respect of payments made out of the EBTs. Work is ongoing with EBT and IHT specialists to review the validity and quantum of this element of the claim.
- HMRC have raised a number of questions in relation to the tax and NIC treatments of dividends paid on claims from former employees and further information has been provided.



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## Section 3 Statutory and other information

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<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Case 7945 of 2008
<i>Full name:</i>	Lehman Brothers Limited
<i>Trading name:</i>	Lehman Brothers Limited
<i>Registered number:</i>	846922
<i>Registered address:</i>	7 More London Riverside, London, SE1 2RT
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	Michael John Andrew Jervis, Zelf Hussain, Gillian Eleanor Bruce, Edward John Macnamara and Russell Downs of PricewaterhouseCoopers LLP, 7 More London Riverside, SE1 2RT <a href="mailto:lbenquiries@uk.pwc.com">lbenquiries@uk.pwc.com</a>
<i>Changes in Administrator:</i>	Zelf Hussain replaced Dan Yoram Schwarzman, Anthony Victor Lomas, Steven Anthony Pearson and Julian Guy Parr on 1 June 2016  Gillian Eleanor Bruce, Edward John Macnamara and Russell Downs were appointed as Joint Administrators on 26 July 2018
<i>Appointer's / applicants' name and address:</i>	High Court of Justice, Chancery Division, Companies Court on the application of the directors of the Company, 25 Bank Street, London, E14 5LE.
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, 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 Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted five successive extensions to the Administration to: 30 November 2011; 30 November 2013; 30 November 2014; 30 November 2016; and 30 November 2020.
<i>Estimated dividend for unsecured creditors:</i>	<p>An Order was granted giving the Joint Administrators leave to pay distributions to (non-preferential) unsecured creditors of LBL.</p> <p>The Administrators declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors on 15 December 2014, and declared on 6 September 2017 and paid shortly thereafter a second dividend of 98.34p to ordinary unsecured creditors.</p> <p>Following the payment of dividends totalling 100p in the £ to ordinary unsecured creditors, a first interim dividend of 77.44p in the £ was declared and paid to subordinated creditors ranking above statutory interest.</p> <p>The Administrators have paid a second and final dividend to subordinated creditors of 22.56p in the £ on 14 April 2018.</p> <p>Following payment of 100p in the £ to subordinated creditors the Administrators have issued a final Notice of Intended Dividend for unsecured claims and post-Administration interest and on 13 September 2018 declared a distribution of 31.4% of creditors' entitlements to such interest.</p>

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# **Section 4 Joint Administrators’ remuneration and other matters**

## **Background**

In this case, the Committee is responsible for agreeing the basis and quantum of the Administrators’ remuneration.

## **The Insolvency Rules (“IR16”)**

There are three alternative fee bases under IR16, either or a combination of:

- A percentage of the value of the property with which the administrator has to deal.
- By reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.
- As a set amount.

IR16 also provides that in arriving at its decision on remuneration, the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the administrator;
- The effectiveness with which the administrator appears to be carrying out, or to have carried out, their duties; and
- The value and nature of the property which the administrator has to deal with.

## **Statement of Insolvency Practice No. 9 (“SIP9”)**

In addition to IR16, SIP9, issued by the Joint Insolvency Committee, provides guidance to insolvency practitioners in relation to the disclosure of payments to insolvency office holders and their associates.

The purpose of SIP9 is to set out the principles and key compliance standards with which insolvency practitioners are required to comply with regard to the provision of information to creditors and other interested parties who have a financial interest in the level of office holders’ remuneration, disbursements and expenses paid from an insolvent estate.

In accordance with SIP9, which was revised with effect from 1 December 2015, Section 5 shows a summary of the work undertaken by the Administrators in the reporting period and, to the extent that is not prejudicial to the interests of the Company, the expected future work the Administrators are to carry out to achieve the purpose of the Administration is shown in Section 2.

Creditors have the right to ask for information and challenge the Administrators’ fees if they believe that they are too high. Creditors can find an explanatory note online at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2017/administration-creditor-fee-guide-6-april-2017.ashx?la=en>

A copy, free of charge, can be obtained from the Administrators.

## **Resolutions of the Creditors’ Committee**

Given the fundamental uncertainties about the value of the property with which the Administrators have to deal, the Committee resolved that the Administrators’ remuneration be based on the ‘time properly given’ basis – i.e. an hourly billing basis.

The Committee also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and the extent to which the Administrators can draw remuneration is subject to its approval.

## **Costs incurred and approved to date**

To 14 September 2018, the Administrators have drawn fees of £36m, including £0.9m of disbursements (exclusive of VAT) in accordance with the Committee resolution and approvals. These fees are shown in the receipts and payments account at Section 7. During the reporting period, the Administrators drew fees of £0.7m on account of their time costs.

The time cost charges incurred in the period 1 March 2018 and 31 August 2018 are £813,296. An analysis of the total hours and cost incurred by grade of staff can be found at Section 5.

## ***Hourly rates***

The following table summarises the hourly rate ranges charged per hour for the grades of staff who have already worked on the Administration during the reporting period:

<b><i>Grade</i></b>	<b><i>Min Rate (£)</i></b>	<b><i>Max Rate (£)</i></b>
Partner	812	1,445
Director	712	1,325
Senior Manager	450	1,020
Manager	275	735
Senior Associate	182	545
Associate	175	290

## ***Payments to associates***

No work by associates has taken place during the reporting period.

## ***Subcontractors***

No work was subcontracted by the Administrators in the reporting period.

## ***Relationships***

The Administrators have no business or personal relationships with the parties who approve their fees or who provide services to the Administration where the relationship could give rise to a conflict of interest.

## ***Legal and other professional firms***

A summary of legal advisors instructed by the Administrators can be found at Section 6. The Administrators are satisfied that the level of legal and professional costs are appropriate.

## ***Disbursements***

The Administrators do not need approval to draw expenses or disbursements unless they are for shared or allocated services provided by their own firm, including room hire, document storage, photocopying, communication facilities. These "Category 2" disbursements must be directly incurred on the case, subject to a reasonable method

of calculation and allocation and approved by the same party who approves their fees.

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs, statutory advertising and insolvency office holders' insurance.

The Administrators' expenses policy allows for all properly incurred expenses to be recharged to the Administration.

The following disbursements were incurred in the reporting period:

<b><i>Description</i></b>	<b><i>Category 1 (£)</i></b>	<b><i>Category 2 (£)</i></b>
Reimbursement of staff expenses	751	-
Posting and Printing	59	-
IT/ Licence costs	-	47,765
<b>Total</b>	<b>810</b>	<b>47,765</b>

## Section 5 Analysis of the Joint Administrators' time costs

The table below summarises time spent by the Administrators and their staff in the six month period from 1 March 2018 to 31 August 2018.

Reporting Category	Partner		Director		Senior Manager		Manager		Senior Associate		Associate		Total	
	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £
Accounting and Treasury	2	1,218	-	-	16	8,658	18	7,780	118	37,156	29	6,092	182	60,903
Employee and creditor claims	-	-	1	1,039	104	56,367	70	24,930	46	11,201	76	13,379	297	106,916
Intercompany	-	-	22	15,664	2	932	-	-	-	-	9	1,558	33	18,153
Litigation	1	468	-	-	44	24,222	75	29,130	-	-	2	301	121	54,120
Statutory and Compliance	3	2,436	0	320	75	41,347	9	3,285	49	12,961	121	23,111	259	83,460
Strategy and Planning	33	31,229	-	-	118	64,554	2	803	4	1,045	4	639	161	98,270
Tax & VAT	46	52,327	117	121,355	155	98,965	130	81,224	43	15,439	105	22,163	596	391,473
<b>Total</b>	<b>84</b>	<b>87,677</b>	<b>140</b>	<b>138,379</b>	<b>513</b>	<b>295,045</b>	<b>303</b>	<b>147,151</b>	<b>260</b>	<b>77,802</b>	<b>347</b>	<b>67,242</b>	<b>1,648</b>	<b>813,296</b>
Average rate (£/Hour)		1043		987		575		485		299		194		494

Summary of time costs incurred to 31 August 2018	Cost £
Cumulative time costs to 28 February 2018	<b>34,527,079</b>
Time costs incurred in the period 1 March 2018 to 31 August 2018	813,296
<b>Total</b>	<b>35,340,375</b>

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Examples of work undertaken in the six-month period 1 March to 31 August 2018, broken down by category are as follows:

### ***Accounting and treasury – £60,903***

Work reported in this category relates to LBL's accounting and treasury activities to maximise interest receipts, manage liquidity and minimise financial risk, preserving value for creditors. Key activities include:

- Investment, monitoring and control of LBL's free cash resources, including ensuring cash held at best rates only in approved banks and subject to frequently reviewed limits;
- Monitoring investment strategy and reviewing in response to changing market conditions;
- Reviewing liquidity and investment maturities to ensure sufficient cash to meet Administrators' expenses;
- Periodic audit of treasury processes and procedures;
- Adherence to the UK and US FATCA (Foreign Account Tax Compliance Act) and CRS (Common Reporting Standard);
- Preparing of periodic receipts & payments reports and information to support financial management and decision making;
- Periodic reconciliation of bank accounts to ledger;
- Providing input to VAT returns and distribution of VAT receipts to other Lehman Administration Companies;

- Foreign exchange transfers on receipt of material foreign currency balances; and
- Facilitating payments of catch-up and reissued dividends.

### ***Employee and creditor claims – £106,916***

#### *General supplier creditor claims*

- Adjudication of supplier claims and corresponding with creditors to obtain further information;
- Sending a Notice of Intended dividend in respect of the final unsecured distribution and giving notice of the first statutory interest payment, liaising with creditors regarding any amendments to claims and preparing the first distribution of statutory interest to creditors;
- Obtaining and verifying revised bank account details from creditors;
- Re-issue of returned dividends to creditors;
- Ongoing legal advice in respect of complex supplier claims;
- Dealing with a number of queries from claims aggregators and creditors who have assigned their claims; and
- Updating creditor contact details as notified.

#### *Employee claims*

- Obtaining and verifying revised bank account details from employee creditors;

- Sending a Notice of Intended dividend in respect of the final unsecured distribution and giving notice of the first statutory interest payment, liaising with employee creditors regarding any amendments to claims and preparing the first distribution of statutory interest to employee creditors in respect of their unsecured and preferential claim;
- Calculating and paying of catch up dividends to employee creditors;
- Re-issue of returned dividends to employee creditors;
- Continued work to review and adjudicate former employees' claims;
- Ongoing engagement with employee creditors to resolve outstanding employment tribunal claims and discussions with lawyers to agree strategy to deal with these claims; and
- Updating employee creditor contact details as notified.

See Section 2.3 for further information on the above work streams.

### ***Intercompany – £18,153***

This work relates to the agreement of intercompany balances and collection of receivables for the benefit of creditors. This excludes matters actually or potentially the subject of litigation. See Section 2.1 for further detail.

### ***Litigation – £54,120***

This work relates to the agreement of intercompany balances and collection of receivables for the benefit of creditors, inclusive of matters actually or potentially the subject of litigation.

- The Administrators have engaged extensively with solicitors and Counsel to ascertain how best to approach the application for directions, the principle objective being to ensure that all arguments that could be made in favour of LBL's position were made to the Court.

- LBL's application to be joined to the application for directions was declined by the Court in July 2018; however LBL continues to engage with the other parties and in particular LBH Plc to ensure all relevant documents are made available to the Court, and all arguments properly made.
- The Administrators continue to engage with the Administrators of LBHI2, and also with LBHI, which has a material financial interest.

See Section 2.1 and 2.2 for further information on the above work streams.

### ***Statutory and compliance – £83,460***

Work the Administrators undertake in order to ensure compliance with statutory and regulatory requirements. Key activities include:

- Preparing and reporting to the Committee at the meeting held on 8 June 2018;
- Preparing and issuing of March 2018 progress report to creditors;
- Six monthly review of case progress;
- Other statutory filings at Companies House and Court;
- Working with solicitors and tax advisers in relation to the application to Court to appoint additional Joint Administrators;
- Recording, monitoring and reporting of time spent by Administration case staff; and
- Reviewing and approving legal and other third party costs and invoices.

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## ***Strategy and planning – £98,270***

This work relates to directing and coordinating the overall conduct of the Administration so that it is progressed in a timely and efficient manner for the benefit of the Company's creditors. Key activities include:

- Considering and directing the overall strategy for LBL, including engagement with stakeholders;
  - Oversight of the claims adjudication process and reserving for claims and other matters;
  - Assessing the ranking of subordinated debt in LBHI2, the impact on LBH Plc (of which LBL is the major creditor) and considering with solicitors and Counsel how LBL should engage in anticipated applications to Court for directions as regards the ranking;
  - Working with other Lehman Administration Companies to pay distributions in a coordinated manner;
  - Coordinating, directing and resourcing work stream activities;
  - Oversight of reporting and accounting, including periodic meetings to monitor progress; and
  - Oversight of funds management and investment strategy.
- Preparation and submission of VAT returns;
  - Distribution of VAT receipts received as Representative Member to other Lehman estates and collecting VAT contributions;
  - Preparation of accounting information to support tax computations;
  - Preparation of corporation tax returns;
  - Administration of group tax losses to 31 May 2016, including submission of appropriate returns;
  - Liaising with HMRC regarding establishing pre administration HMRC claim. Including numerous meetings with the overall inspector and HMRC specialists;
  - Audit of VAT and tax returns, implementation and monitoring of risk and quality metrics;
  - Discussions with HMRC concerning agreement of IMTAR (In The Money Appreciation Rights) /forgivable loan position going forward;
  - Submission of monthly RTI (Real Time Information) returns for dividends paid to former employee and related tax adjustments;
  - Consideration of impact on the Company of changes to UK tax legislation, including loss restriction and interest deductibility rules, and the potential impact of the appointment of additional Joint Administrators;

## ***Tax and VAT – £391,473***

Work reported in this category includes compliance with tax legislation under the Administrators' obligations as proper officers for tax, and planning to ensure the efficient realisation of assets for the benefit of the Company's creditors as a whole. Work performed includes:

- 
- Providing tax advice in relation to the potential deduction of income tax at source (WHT) in the event interest payments are made to creditors for post-Administration periods;
  - Compliance with various reporting obligations including tax strategy and corporate criminal offence legislation;
  - Providing tax advice and support on the appropriate tax treatment on the second interim distribution to former employees including several meetings with HMRC specialists and continued correspondence and discussions with the inspector to confirm the appropriate tax deduction; and
  - Seeking clearance from HMRC that Employers' NIC is not deductible on payments of distributions to former employees – including the preparation of response to HMRC enquiry and meetings with HMRC employment specialists.

For further information see Section 2.4.



## Section 6 Legal and other professionals

Service provided	Name of firm / organisation	Reason selected	Basis of fees
<p>Legal services, including:</p> <ul style="list-style-type: none"> <li>Local advice on overseas asset realisations.</li> <li>Legal input into the claims adjudication process and settlement where required.</li> <li>Legal input into drafting documents and advice on the application of additional administrators.</li> <li>Legal advice re LBHI2 subordinated debt and LBL joining proceedings.</li> <li>Legal input into ET claims, employee claims and tax advice on such claims.</li> <li>Advice on other ad-hoc matters.</li> </ul>	<ul style="list-style-type: none"> <li>Buis Burgi AG</li> <li>Dechert LLP</li> <li>DLA Piper UK LLP</li> <li>Linklaters LLP</li> </ul>	<ul style="list-style-type: none"> <li>Specialist knowledge and experience (in overseas jurisdictions, where applicable)</li> </ul>	<ul style="list-style-type: none"> <li>Time cost basis. Time cost analyses are reviewed and approved prior to payment of invoices.</li> </ul>

# Section 7 Receipts and payments to 14 September 2018

Amount in millions	GBP	EUR	USD	CHF	As at 14 Sep 2018	As at 14 Mar 2018	Movement
					Total in GBP	Total in GBP	
<b>Receipts</b>							
Contribution from third parties 1	141.9	0.6	11.3	-	149.6	149.6	-
Building recharge receipts	130.3	-	-	-	130.3	130.3	-
Payroll recharge receipts	502.0	0.1	57.1	-	538.4	538.4	-
Other (including realisations and payments for other companies)	887.9	3.9	219.7	0.2	1,031.1	890.5	140.6
Tax related receipts	723.3	-	-	-	723.3	719.9	3.4
VAT received on invoices	7.2	-	-	-	7.2	7.2	-
<b>Total receipts for period</b>	<b>2,392.6</b>	<b>4.6</b>	<b>288.1</b>	<b>0.2</b>	<b>2,579.9</b>	<b>2,435.9</b>	<b>144.0</b>
<b>Payments</b>							
Building and occupancy cost	(179.5)	(0.3)	(62.9)	-	(219.8)	(219.8)	-
Payroll and employee costs 2	(520.5)	(2.8)	(45.2)	-	(551.6)	(551.5)	(0.1)
Return of recharge surplus	(2.4)	-	-	-	(2.4)	(2.4)	-
Other costs and payments	(69.6)	(0.3)	(1.2)	-	(70.6)	(70.5)	(0.1)
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(35.9)	-	(0.1)	-	(36.0)	(35.3)	(0.7)
Administrators' fees 3	(36.0)	-	-	-	(36.0)	(35.3)	(0.7)
Return of Corporation Tax to group companies	(469.1)	-	-	-	(469.1)	(469.1)	-
VAT related payments	(196.6)	-	-	-	(196.6)	(196.6)	-
VAT paid on invoices	(14.8)	-	(1.4)	-	(15.7)	(15.4)	(0.3)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
<b>Total payments for period</b>	<b>(1,527.3)</b>	<b>(3.4)</b>	<b>(110.8)</b>	<b>-</b>	<b>(1,600.6)</b>	<b>(1,598.7)</b>	<b>(1.9)</b>
<b>Inter-currency transfers</b>							
Receipts from inter-currency transfers	149.8	2.7	57.8	-	188.8	187.8	1.0
Payments from inter-currency transfers	(31.1)	(3.9)	(234.6)	(0.2)	(183.8)	(182.9)	(0.9)
<b>Net inter-currency transfers</b>	<b>118.7</b>	<b>(1.2)</b>	<b>(176.8)</b>	<b>(0.2)</b>	<b>5.0</b>	<b>4.9</b>	<b>0.1</b>
<b>Distributions</b>							
Distribution to preferential creditors @ 100p/£ (declared 07/06/13)	(1.9)	-	-	-	(1.9)	(1.9)	-
Distribution to unsecured creditors @ 1.66p/£ (declared 15/12/14)	(11.3)	-	-	-	(11.3)	(11.3)	-
Distribution to unsecured creditors @ 98.34p/£ (declared 06/09/17)	(667.7)	-	-	-	(667.7)	(667.4)	(0.3)
Distribution to subordinated creditors @ 77.44p/£ (declared 06/09/17)	(19.4)	-	-	-	(19.4)	(19.4)	-
Distribution to subordinated creditors @ 22.56p/£ (declared /04/18)	(5.6)	-	-	-	(5.6)	-	(5.6)
Gross distribution to preferential and unsecured creditors of statutory interest @ 31.4% (declared 13/09/18)	(121.7)	-	-	-	(121.7)	-	(121.7)
<b>Total distributions</b>	<b>(827.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(827.7)</b>	<b>(700.0)</b>	<b>(127.7)</b>
<b>Net cash position</b>	<b>156.3</b>	<b>0.0</b>	<b>0.5</b>	<b>-</b>	<b>156.6</b>	<b>142.1</b>	<b>14.5</b>
<b>Bank balances</b>							
Bank of England	-	-	-	-	-	-	-
HSBC 4	82.2	-	0.5	-	82.5	3.8	78.7
Money Market Funds	74.1	-	-	-	74.1	138.3	(64.2)
<b>Net bank balance</b>	<b>156.3</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>156.6</b>	<b>142.1</b>	<b>14.5</b>

Notes:

- 1) Includes elements of building & occupancy and payroll related recharges
- 2) Payroll cost attributable to LBL
- 3) Includes Administrators' disbursements of £0.9m
- 4) Funds held in interest bearing accounts
- 5) Figures may not cast due to rounding

Rates used for conversion are Financial Times rates fixed on 14 March 2012.

1 USD = 0.6366 GBP  
1 EUR = 0.8322 GBP  
1 CHF = 0.6874 GBP

## Section 8 Statement of expenses

The following table provides details of Administration expenses. Expenses are amounts properly payable by the Administrators from the estate including fees, but excluding distributions to creditors. The table also excludes any potential tax liabilities payable as an Administration expense because amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account at Section 7, which shows expenses paid during the period and the total paid to date.

R&P category	Paid in previous periods (£m)	Paid in period (£m)	Incurred in period but not paid (£m)	Cumulative (£m)	Estimated future (£m) <sup>1</sup>	Estimated total (£m)
Building and occupancy costs	219.8	-	-	219.8	-	219.8
Payroll and employee costs <sup>1</sup>	551.5	-	-	551.5	-	551.5
Return of recharge surplus	2.4	-	-	2.4	-	2.4
Other costs and payments	70.5	-	-	70.5	5.0	75.5
Other advisors' costs <sup>2</sup>	1.3	-	-	1.3	Materially uncertain	Materially uncertain
Legal fees <sup>2</sup>	35.6	0.7	0.2	36.5	Materially uncertain	Materially uncertain
Administrators' time costs <sup>2,3</sup>	34.6	0.7	0.2	35.5	Materially uncertain	Materially uncertain
Administrators' disbursements <sup>2</sup>	1.0	-	-	1.0	Materially uncertain	Materially uncertain
<b>Total<sup>4</sup></b>	<b>916.7</b>	<b>1.4</b>	<b>0.2</b>	<b>918.5</b>	Materially uncertain	Materially uncertain

### Notes:

- 1) Relates only to LBL costs. No provision has been made for costs borne by LBL and recharged to other Lehman estates.
- 2) These costs are highly contingent on the outcome of ongoing and prospective litigation, further information on which can be found at Section 2. As a result, it is not possible to provide a meaningful estimate of the total expense.
- 3) The Administrators estimate that those costs not dependent (except in duration) upon the progression of issues subject to litigation and that are currently required to maintain the routine aspects of the Administration are c. £500k per annum.
- 4) Excludes VAT, which is partly recoverable.

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