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# ***LB UK Financing Limited – In Administration***

Joint Administrators' progress  
report for the period 2 April 2014 to  
1 October 2014

17 October 2014

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

This is the 12th progress report by the Joint Administrators (the "Administrators") of LB UK Financing Limited ("LBUKF" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 1 October 2014.

## ***Objectives of the Administration***

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

The specific aim of this Administration was to protect, control and realise the Company's investment in its subsidiary, LB SF No.1 ("LBSF"), for the benefit of the unsecured creditors of LBUKF.

## ***Outcome for creditors***

On 24 June 2013, the Court gave the Administrators of LBUKF permission to make distributions to its unsecured non-preferential creditors ("unsecured creditors").

As at 1 October 2014, the Administrators have declared and paid three cash distributions totalling £350.9m to the Company's unsecured creditor, Lehman Brothers Holdings Inc ("LBHI") represented by:

- A first interim dividend of 0.088 pence in the £ paid in October 2013;
- A second interim dividend of 2.935 pence in the £ paid in March 2014; and
- A third interim dividend of 13.35 pence in the £ paid in September 2014.

In addition, the Company entered into two separate netting agreements with LBHI (the "Netting Agreements");

Pursuant to the terms of first Netting Agreement, dated 4 September 2014, the Company paid £170.9m, equating to 7.97 pence in the £, by way of payment netting to its unsecured creditor, in addition to the third interim cash dividend.

In accordance with the second Netting Agreement dated 11 September 2014, on 13 October 2014 the Company paid a fourth interim dividend of £69.06m, equating to 3.22 pence in the £, by way of payment netting. In addition, as part of the fourth dividend LBUKF paid a cash distribution of £10.09m, being 0.47 pence in the £; a total dividend of £79.15m, equating to 3.69 pence in the £.

This distribution has been made outside of the reporting period and is therefore not reflected in the Receipts and Payments account at Section 5 of this report.

Further information regarding the Netting Agreements is provided in Section 2.

Cash distributions will continue to be paid to the unsecured creditor as reserves are released to LBUKF from LBSF. Further distributions by way of payment netting will be made on a six monthly basis, to coincide with LBHI's creditor distributions.

## ***Pension liability***

During the reporting period, the Administrators entered into an agreement to settle the Upper Tribunal proceedings against various Lehman companies. The purpose of the Upper Tribunal proceedings was to decide whether a Financial Support Direction ("FSD") should be made, and against which entities, in respect of the Lehman Brothers Pension Scheme (the "Scheme") such that additional contributions would be paid into the Scheme.

Following the settlement agreement with the Pension Scheme Trustees and all other potential FSD targets, which became effective on 18 August 2014, LBUKF no longer has a potential liability to the Scheme.

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As part of the settlement, LBUKF has contributed to certain legal costs of the Pension Scheme Trustees and the Pensions Regulator. However, LBUKF has not contributed to the cost of funding pension benefits under the settlement, which are being discharged by other Lehman companies.

### ***Extension of the Administration***

On the application of the Administrators, the High Court made an order to extend the period of the Administration to 30 November 2015.

### ***Future reports***

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

Signed:



GE Bruce  
Joint Administrator  
LB UK Financing Limited

*AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of LB UK Financing Limited to manage its affairs, business and property as agents without personal liability.*

*AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr 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 Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the administration.*

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

### ***Background***

LBUKF acted as the holding company and funding vehicle for LBSF. LBSF and its subsidiaries invested in a variety of performing and non-performing loan portfolios.

### ***Administrators' actions to date***

The Company's most significant asset is its investment in LBSF.

### ***Distributions from subsidiary***

LBSF was placed into Creditors' Voluntary Liquidation on 3 October 2013, having paid its admitted unsecured creditors in full, plus statutory interest.

Following its move into Liquidation, LBSF has made a number of cash distributions and a distribution in specie to LBUKF:-

### ***Distribution in specie***

On 4 February 2014, LBSF made a distribution in specie to LBUKF, comprising an assignment of the receivables due to LBSF from Stepstone Mortgage Funding Limited ("Stepstone") and SM Funding No.1 Limited with an aggregate value of €208m.

Stepstone is an Irish mortgage lender which has continued to trade with a view to enhancing the overall recoveries of its loans. No recoveries had been received by LBSF prior to the assignment.

### ***Cash distributions***

In March 2014, LBSF made a first cash distribution of \$143m to LBUKF. In September 2014, LBSF made two further cash distributions of £274m and £10m, respectively.

### ***Netting Agreement***

Until recently, LBSF had an admitted claim for c.\$2.87bn in the LBHI estate. In turn, LBHI has an admitted claim of c.\$3.76bn in the Administration of LBUKF. This gave rise to an issue of circularity of payments whereby (i) LBHI paid cash to LBSF pursuant to its admitted claim; (ii) LBSF paid cash to LBUKF by way of shareholder distributions; and (iii) LBUKF paid cash to LBHI by way of creditor distributions (the "Roundtripping Issue").

On 4 September 2014, LBSF's Liquidators transferred LBSF's claim against LBHI (the "Transferred Claim") to LBUKF by way of a shareholder distribution. The Administrators of LBUKF then entered into the Netting Agreements. The Netting Agreements allowed for both previous and future distributions from LBHI to be netted against LBHI's right to receive distributions from LBUKF (pursuant to the Transferred Claim). This in turn allowed LBUKF to pay the sums referred to in Section 1 above by way of payment netting rather than cash distribution.

Following the resolution of this key issue, it is understood that the Liquidators of LBSF are considering the most efficient process for dealing with the remaining assets in LBSF's estate with the intention of bringing the Liquidation to an end at the earliest opportunity.

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8604 of 2008
<i>Full name:</i>	LB UK Financing Limited
<i>Trading name:</i>	LB UK Financing Limited
<i>Registered number:</i>	05729776
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09), AJ Rush (resigned 28/10/08)
<i>Company secretary:</i>	ESE Upton (resigned 25/01/10), P Dave (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	2 October 2008
<i>Current Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
<i>Appointer's name and address:</i>	The original appointment of Administrators was made by the directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration)
<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 High Court of Justice has granted four successive extensions to the Administration period to: 30 November 2010, 30 November 2011; 30 November 2013 and most recently to 30 November 2015
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them
<i>Estimated dividend for unsecured creditors:</i>	The Administrators have declared four dividends to unsecured creditors. The quantum and timing of any further dividends remain uncertain at present
<i>Estimated values of the prescribed part and net property:</i>	Not applicable as there is no qualifying floating charge
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings

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## ***Section 4 Financial Information***

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

An account of the receipts and payments for the six months to 1 October 2014, together with a cumulative total since commencement of the Administration, is set out in Section 5.

### ***Administrators' remuneration***

In August 2011, the Administrators requested and received consent from the creditors of LBUKF for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff.

In June 2013, the Administrators convened a creditors' meeting by correspondence to seek approval for their remuneration of £83,765 plus VAT for the period from 1 May 2011 to 30 April 2013. However the meeting was inquorate, therefore no remuneration was drawn in respect of timecosts incurred after 1 May 2011.

In May 2014, the Administrators convened a further creditors' meeting by correspondence to obtain formal approval that they may draw their remuneration for the period 1 May 2011 to 31 March 2014. This was approved by LBUKF's creditors and consent was also provided that the Administrators be authorised to draw their remuneration from time to time.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 April 2014 to 31 August 2014, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £154,564 plus VAT, which comprises 364.93 hours at an average hourly rate of £424. Details of time costs incurred in earlier periods have been provided in earlier reports.



## Section 5 Receipts and Payments Account

	Note	As at 1 October 2014 GBP (£)	Movements GBP (£)	As at 1 April 2014 GBP (£)	As at 1 October 2014 USD (\$)	Movements USD (\$)	As at 1 April 2014 USD (\$)
<b>Receipts</b>							
Shareholder distribution from LB SF No.1	1	284,265,578	284,265,578	-	143,912,929	-	143,912,929
VAT refunds		3,468	2,449	1,019	-	-	-
Recharge of tax function costs		23,827	-	23,827	-	-	-
Bank interest		35,614	35,211	403	-	-	-
Sale of tax losses		2,169,341	-	2,169,341	-	-	-
<b>Total Receipts</b>		<b>286,497,828</b>	<b>284,303,238</b>	<b>2,194,590</b>	<b>143,912,929</b>	<b>-</b>	<b>143,912,929</b>
<b>Payments</b>							
Legal fees		57,535	36,193	21,342	-	-	-
Pension related legal costs	2	871,460	871,460	-	-	-	-
Employee costs		74,059	39,364	34,695	-	-	-
Shared occupancy costs		2,777	-	2,777	-	-	-
IT costs		5,741	-	5,741	-	-	-
Shares in subsidiaries		4	-	4	-	-	-
Loan to LBL in respect of VAT costs		428	-	428	-	-	-
Joint Administrators' remuneration		414,194	314,829	99,365	-	-	-
Joint Administrators' Category 1 disbursements		389	280	109	-	-	-
Statutory advertising		39,827	19,449	20,378	-	-	-
Pension related costs		25,570	25,570	-	-	-	-
VAT Paid		270,279	248,405	21,874	-	-	-
<b>Total Payments</b>		<b>1,762,263</b>	<b>1,555,550</b>	<b>206,713</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Intracompany Transfers</b>							
Receipt		23,735,132	836,182	22,898,950	-	-	-
Payment		-	-	-	(39,427,079)	(1,385,713)	(38,041,366)
<b>Total receipts less total payments</b>		<b>308,470,697</b>	<b>283,583,870</b>	<b>24,886,827</b>	<b>143,912,929</b>	<b>(1,385,713)</b>	<b>105,871,563</b>
<b>Distributions to unsecured creditors</b>							
1st dividend of 0.088p in the £, declared in October 2013	3	(1,886,054)	-	(1,886,054)	-	-	-
2nd dividend of 2.935p in £, declared in March 2014		-	-	-	(104,485,850)	-	(104,485,850)
3rd dividend of 13.35p in the £, declared September 2014		(286,123,022)	(286,123,022)	-	-	-	-
<b>Total distributions</b>		<b>(288,009,076)</b>	<b>(286,123,022)</b>	<b>(1,886,054)</b>	<b>(104,485,850)</b>	<b>-</b>	<b>(104,485,850)</b>
<b>Total receipts less total payments and distributions</b>		<b>20,461,621</b>	<b>(2,539,151)</b>	<b>23,000,772</b>	<b>39,427,079</b>	<b>(1,385,713)</b>	<b>1,385,713</b>
<b>Cash Balances</b>							
HSBC (non-interest bearing)		10,526,101	10,332,633	193,468	-	(1,385,713)	1,385,713
Money markets	4	9,935,520	(12,871,784)	22,807,304	-	-	-
<b>Total Cash</b>		<b>20,461,621</b>	<b>(2,539,151)</b>	<b>23,000,772</b>	<b>-</b>	<b>(1,385,713)</b>	<b>1,385,713</b>

1. In February 2014, LBUK received a distribution in specie from LB SF No.1 comprising an assignment of receivables of EUR 10,537,696.61 plus accruing interest due from Stepstone Mortgage Funding Limited and an assignment of receivables of EUR 198,455,263.67 plus accruing interest from SM Funding No.1 Limited.
2. LBUK has paid pension related legal fees and expenses totalling £871,459 plus VAT. These costs have been incurred on behalf of other group entities and an agreed percentage, totalling 83% of the pension related legal fees paid, will be recharged to these entities, in due course.
3. Further distributions totalling £239,974,350 have been declared and paid by way of payment netting, pursuant to the terms of the Netting Agreement dated 4 September 2014 between LBHI and LBUK, such that no cash payment has been made in respect of this part of the Dividend.
4. Funds are invested on the money markets in order to accrue interest and to manage risk.



## ***Section 6 Joint Administrators' time costs for the period 1 April 2014 to 31 August 2014***

Classification of Work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	7.80	3,454	18.40	5,487	20.15	4,614	46.35	13,555
Administration and planning	47.60	32,174	29.15	12,564	28.95	10,403	25.75	4,603	131.45	59,744
Creditors	-	-	2.90	1,250	2.30	809	5.50	1,260	10.70	3,319
Statutory and Compliance	-	-	20.85	9,051	19.80	7,128	8.95	2,050	49.60	18,229
Tax and Vat	9.70	7,705	8.75	5,204	2.30	888	3.05	425	23.80	14,222
Pensions	7.60	5,262	86.85	38,226	-	-	5.80	1,328	100.25	44,816
LBL Recharges	0.09	60	0.36	151	0.23	54	2.10	414	2.78	679
<b>Grand Total</b>	<b>64.99</b>	<b>45,201</b>	<b>156.66</b>	<b>69,900</b>	<b>71.98</b>	<b>24,769</b>	<b>71.30</b>	<b>14,694</b>	<b>364.93</b>	<b>154,564</b>
<b>Average Hourly Rate</b>		<b>696</b>		<b>446</b>		<b>344</b>		<b>206</b>		<b>424</b>

### **Current Chargeout Rates:**

Grade	Business Recovery Services		Specialist	
	Max £ per hour		Max £ per hour	
	To 30 June 2014	From 1 July 2014	To 30 June 2014	From 1 July 2014
Partner	873	873	1,167	1,225
Director	665	665	1,076	1,076
Senior Manager	512	512	905	905
Manager	431	431	660	660
Senior Associate	360	360	490	490
Associate/Support Staff	229	229	228	228

The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown given an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

## ***Narrative of the Joint Administrators' time costs for the period 1 April 2014 to 31 August 2014***

### ***Accounting and treasury - £ 13,555***

- Managing investments on the money market;
- Mitigating risk on investments;
- Reconciliation of bank accounts; and
- Undertaking receipts and payments of funds and coding of movements.

### ***Administration and planning - £ 59,744***

- Discussions regarding strategy for the administration;
- Preparation of six monthly internal case review for the Administrators;
- Dealing with roundtripping proposal and Netting Agreement;
- Reviewing financial information and intercompany relationships; and
- Discussion regarding exit strategy and relationship with subsidiary companies.

### ***Creditors – £ 3,319***

- Review of intercompany claims;
- Correspondence with creditor regarding adjudication of claim; and
- Review and maintenance of claim file.

### ***Statutory and compliance – £ 18,229***

- Preparation of the Administrators' eleventh progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparing receipts and payments account;
- Preparing detailed remuneration summary;
- Managing the LBUKF database; and
- Liaising with Administrators on statutory issues.

### ***Tax and VAT - £ 14,222***

- Tax compliance;
- Reviewing tax implications of roundtripping proposal;
- Dealing with tax and VAT queries; and
- Preparation of VAT returns.

### ***Pensions - £ 44,816***

- Monitoring the implications of the Supreme Court judgment in respect of the pension issue; and
- Ongoing discussions with Lawyers in relation to pension issues.

### ***LBL / LBIE recharges - £ 679***

- This is an apportionment of the costs incurred by Lehman Brothers Limited and Lehman Brothers International (Europe) associated with the administration companies.