
LB UK Financing Limited – In Administration

Joint Administrators' progress
report for the period 2 October 2014
to 1 April 2015

30 April 2015

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 13th 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 April 2015 ("the reporting period").

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").

To date, the Administrators have made two distributions by way of payment netting totalling £239.97m, a distribution in specie of £244.88m and declared and paid five cash distributions totalling £459.24m, in total, representing 44.046 pence in the £, to the Company's unsecured creditor, Lehman Brothers Holdings Inc ("LBHI").

Further information regarding the Netting Agreements, Distribution in Specie and Cash Distributions is provided in Section 2 of this report.

The Joint Administrators intend to conclude the Administration within the next six months. It is anticipated that a further final cash distribution and a distribution in specie of LBUKF's remaining intercompany debtor balances will be made shortly before the Administration is brought to an end.

Future reports

The Administrators will next report to creditors upon the conclusion of the Administration or in approximately six months, whichever is sooner.

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.

Section 2 Joint Administrators' actions to date

Background

LBUKF acted as the holding company and funding vehicle for LBSF No.1 ("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 was its investment in LBSF.

Distributions received 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 distributions in specie to LBUKF as detailed below.

Following a final distribution of LBSF's remaining assets, the Liquidation was concluded on 30 January 2015. No further realisations will be received.

Distributions 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 ("SMF") with an aggregate value of €208.99m.

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.

In September 2014, LBSF assigned its \$2.88bn claim against Lehman Brothers Holdings Inc ("LBHI") to LBUKF. This transaction is described in further detail in the Netting Agreement section of this report.

On 19 December 2014, a further distribution in specie was made to LBUKF of the intercompany debtor claims due from Lehman Commercial Mortgage Conduit Limited ("LCMC"), Cherry Tree

Mortgages Limited ("Cherry Tree") and Zestdew Limited (Zestdew") as set out below.

Date	Receivable	Distribution in specie		
		£m	€m	\$m
Feb-14	Stepstone & SMF		208.99	
Sep-14	LBHI			2,875.04
Dec-14	LCMC	239.93		
Dec-14	Cherry Tree	25.25		
Dec-14	Zestdew	13.84		
		278.02	208.99	2,875.04

Cash distributions

In March 2014, LBSF made a first cash distribution of \$143.91m to LBUKF. Two further cash distributions totalling £284.27m were distributed to LBUKF in September 2014.

LBSF paid a final cash distribution of £69.09m to LBUKF in January 2015.

Date	Cash	
	£m	\$m
Mar-14		143.91
Sep-14	274.17	
Sep-14	10.10	
Jan-15	69.09	
	353.36	143.91

Distributions paid to the unsecured creditor

Netting Agreement

LBSF had an admitted claim for c\$2.88bn in the estate of LBHI. In turn, LBHI had an admitted claim of c.£2.14bn in the Administration of LBUKF. This gave rise to a circularity of cashflow 'roundtripping' issue, whereby cash received by LBSF from LBHI was paid to LBUKF by way of a shareholder distribution and ultimately returned to LBHI as the sole creditor of LBUKF.

In order to prevent roundtripping in future distributions, the Company entered into two separate netting agreements with LBHI, one dated 4 September 2014 and a second dated 11 September 2014 (the "Netting Agreements").

Pursuant to the Netting Agreement dated 4 September 2014, the Company paid £170.91m, equating to 7.970 pence in the £ by way of payment netting to its unsecured creditor, together with the third interim dividend.

In accordance with the Netting Agreement dated 11 September 2014, on 13 October 2014 the Company paid a fourth interim dividend of £69.06m, equating to a 3.220 pence in the £, by way of payment netting.

Date	Netting	
	£m	p/£
Sep-14	170.91	7.970
Oct-14	69.06	3.220
	239.97	11.190

Distribution in specie

In February 2015, LBUKF made a distribution in specie of £244.88m to LBHI, comprising the receivable due from LBHI and representing a dividend of 11.430 pence in the £.

Date	Distribution in specie	
	£m	p/£
Feb-15	244.88	11.430
	244.88	11.430

Cash distributions

In the reporting period, LBUKF distributed fourth and fifth interim cash distributions equivalent to £108.33m (comprising payments of £10.10m, £77.93m and £20.30m) equating to 5.053p in the £, to its unsecured creditor.

As noted in Section 1, to date, the Administrators have declared and paid cash distributions to the Company's unsecured creditor totalling £459.24m.

Date	Cash	
	£m	p/£
Oct-13	1.89	0.088
Mar-14	62.90	2.935
Sep-14	286.12	13.350
Oct-14	10.10	0.470
Feb-15	*98.23	4.583
	459.24	21.426

*GBP equivalent

Future distributions

The Joint Administrators are now pursuing the closure of the Administration by way of dissolution. It is anticipated that a further, final cash distribution will be paid to LBHI, together with a distribution in specie of LBUKF's remaining intercompany receivable balances prior to the closure of the Administration.

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 now pursuing a closure of the Administration by way of dissolution
<i>Estimated dividend for unsecured creditors:</i>	The Administrators have declared and paid five dividends to the unsecured creditor. It is anticipated that a final dividend will be paid to the unsecured creditor within the next six months.
<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

Section 4 Financial Information

Receipts and payments account

An account of the receipts and payments for the six months to 1 April 2015, together with a cumulative total since commencement of the Administration, is set out in Section 5.

Key movements during the period include:

- Additional pension related legal fees and expenses totalling £313,089 plus VAT have been met by LBUKF;
- LBUKF has received £376,929 in respect of pension legal fee recharged to other entities in the group;
- Legal fees paid totalling £277,922;
- A final cash distribution of £69.09m received from LBSF; and
- Cash dividends equivalent to £108.33m paid to the unsecured creditor.

In addition to the above cash movements, distributions in specie have been made as outlined in Section 2 of the report.

Administrators' remuneration

In August 2011, the Administrators requested and received consent from the creditor 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.

In this period, Joint Administrators remuneration of £270,691 plus VAT has been drawn.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 October 2014 to 28 February 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £431,313 plus VAT, comprising 973.9 hours at an average hourly rate of £443. Details of time costs incurred in earlier periods have been provided in earlier reports.

Section 5 Receipts and Payments Account

	As at 1 April 2015 GBP (£)	Movements GBP (£)	As at 1 October 2014 GBP (£)	As at 1 April 2015 USD (\$)	Movements USD (\$)	As at 1 October 2014 USD (\$)	As at 1 April 2015 EUR (€)	Movements EUR (€)	As at 1 October 2014 EUR (€)
Receipts									
Shareholder distribution from LB SF No.1	353,356,576	69,090,998	284,265,578	143,912,929	-	143,912,929	27,365,066	27,365,066	-
Distribution received from Steptone Mortgage Funding Limited	-	4	-	-	-	-	-	-	-
Sale of shares in subsidiaries	4	(3,468)	3,468	-	-	-	-	-	-
VAT refunds	23,827	-	23,827	-	-	-	-	-	-
Recharge of tax function costs	376,929	-	-	-	-	-	-	-	-
Recharge of pension legal fees incurred by LB SF No. 1	43,446	7,832	35,614	-	-	-	-	-	-
Bank interest	2,169,341	-	2,169,341	-	-	-	-	-	-
Sale of tax losses	353,970,123	69,472,295	286,497,828	143,912,929	-	143,912,929	27,365,066	27,365,066	-
Total Receipts									
Payments									
Legal fees	335,457	277,922	57,535	-	-	-	-	-	-
Pension related legal costs	1,184,549	313,089	871,460	-	-	-	-	-	-
Employer costs	99,493	25,434	74,059	-	-	-	-	-	-
Shared occupancy costs	11,620	8,843	2,777	-	-	-	-	-	-
IT costs	5,741	-	5,741	-	-	-	-	-	-
Purchase of shares in subsidiaries	4	-	4	-	-	-	-	-	-
Loan to Lehman Brothers Limited in respect of VAT costs	428	-	428	-	-	-	-	-	-
Joint Administrators' remuneration	684,885	270,691	414,194	-	-	-	-	-	-
Joint Administrators' Category 1 disbursements	389	-	389	-	-	-	-	-	-
Statutory advertising	49,037	9,210	39,827	-	-	-	-	-	-
Pension related costs	25,570	-	25,570	-	-	-	-	-	-
VAT irrecoverable	429,053	158,774	270,279	-	-	-	-	-	-
Total Payments	2,826,226	1,063,963	1,762,263	-	-	-	-	-	-
Intracompany Transfers									
Receipt	23,735,132	-	23,735,132	(39,427,079)	-	(39,427,079)	-	-	-
Payment	-	-	-	104,485,850	-	104,485,850	27,365,066	-	-
Total Receipts less total payments	376,879,029	68,408,333	308,470,667	104,485,850	-	104,485,850	27,365,066	-	-
Distributions to unsecured creditors									
1st dividend of 0.088p in the £, declared in October 2013	(1,886,054)	-	(1,886,054)	-	-	-	-	-	-
2nd dividend of 2.935p in the £, declared in March 2014	-	-	-	(104,485,850)	-	(104,485,850)	-	-	-
3rd dividend of 1.335p in the £, declared September 2014	(286,123,022)	-	(286,123,022)	-	-	-	-	-	-
4th dividend of 0.470p in the £, declared in October 2014	(10,099,412)	(10,099,412)	-	-	-	-	(27,365,066)	-	-
5th dividend of 4.583p in the £, declared in February 2015	(77,927,546)	(77,927,546)	(288,009,076)	(104,485,850)	-	(104,485,850)	(27,365,066)	-	-
Total distributions	(376,036,034)	(88,026,958)	(464,062,992)	(208,971,700)	-	(208,971,700)	(54,730,132)	-	-
Total receipts less total payments and distributions	842,995	(19,618,625)	20,461,621	-	-	-	-	-	-
Cash Balances									
HSBC (non-interest bearing)	842,995	(9,683,106)	10,526,101	-	-	-	-	-	-
Money markets	-	(9,935,520)	9,935,520	-	-	-	-	-	-
Total Cash	842,995	(19,618,626)	20,461,621	-	-	-	-	-	-

1. Due to the nature of the Company's former business it is not entitled to recover VAT on its costs, therefore, funds received from Lehman Brothers Limited have now been repaid.

Section 6 Joint Administrators' time costs for the period 1 September 2014 to 28 February 2015

Classification of Work	Partner/Director Hours	£	Senior Manager/Manager Hours	£	Senior Associate Hours	£	Associate/Support Staff Hours	£	Total Hours	£
Accounting and Treasury	0.35	219	24.65	10,624	74.50	20,724	80.30	18,389	179.80	49,956
Strategy and planning	164.30	116,692	97.55	42,433	131.20	43,042	21.00	4,703	414.05	206,870
Creditors	-	-	3.35	1,444	3.55	1,278	-	-	6.90	2,722
Statutory and Compliance	7.50	6,548	57.15	25,263	93.25	32,479	79.77	18,267	237.67	88,557
Tax and Vat	62.00	60,538	27.25	14,884	25.90	8,730	7.63	1,436	122.78	86,588
LBL Recharges	0.81	539	4.77	1,379	2.22	589	4.92	1,113	12.72	3,620
Grand Total	234.96	184,536	214.72	96,027	330.62	106,842	193.62	43,908	973.92	431,313
Average Hourly Rate		785		447		323		227		443

Current Chargeout Rates:

Grade	Business Recovery Services Max £ per hour		Specialist Max £ per hour	
	From 1 July 2014	From 1 January 2015	From 1 July 2014	From 1 January 2015
Partner	873	873	1225	1225
Director	665	765	1076	1076
Senior Manager	512	905	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.

Tax function costs

Certain group tax matters are managed through Lehman Brothers Limited ("LBL") as Group Paying Agent. When recoveries of Corporation Tax paid pre-appointment are paid to relevant estates, the associated PwC costs incurred by the relevant estates are re-apportioned by reference to quantum of refunds to each estate.

The final refund of pre-appointment Corporation tax has now been received by LBL and redistributed to certain group companies, and the final re-apportionment of costs is now known. LBUKF has not benefited from any tax refund so will not contribute to the costs. Time costs in relation to tax function costs of £20,225 previously reported in the Administration have now been recovered from other estates, as LBUKF received no benefit attributable to such costs. These costs had not actually been paid by LBUKF so a refund is not due to it. Accordingly, an adjustment of previously reported Administration time costs is detailed below:

Classification of Work	Partner/Director Hours	£	Senior Manager/Manager Hours	£	Senior Associate Hours	£	Associate/Support Staff Hours	£	Total Hours	£
Tax function costs previously reported in Administration	11.14	10,084	19.13	4,431	22.72	5,478	1.39	232	54.38	20,225
Tax function costs recovered	(11.14)	(10,084)	(19.13)	(4,431)	(22.72)	(5,478)	(1.39)	(232)	(54.38)	(20,225)
Total tax function costs attributable	-	-	-	-	-	-	-	-	-	-

Narrative of the Joint Administrators' time costs for the period 1 September 2014 to 28 February 2015

Accounting and treasury - £49,956

- 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.

Strategy and planning - £206,870

- Meetings with stakeholders;
- Discussions regarding strategy for the Administration;
- Dealing with roundtripping proposal and Netting Agreement;
- Reviewing financial information and intercompany relationships;
- Discussion regarding exit strategy and relationship with subsidiary companies; and
- Dealing with issues surrounding final distribution, distribution in specie and closure of LB SF No.1.

Creditors – £2,722

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

Statutory and compliance – £82,557

- Preparation of the Administrators' 12th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparing receipts and payments account;
- Preparing detailed remuneration summary;
- Preparing Administrators' six monthly milestone review summary;
- Liaising with Administrators on statutory issues; and
- Maintaining case files and the LBUKF database.

Tax and VAT - £85,588

- Tax compliance;
- Reviewing tax implications of roundtripping proposal and distribution in specie;
- Preparing tax computations;
- Dealing with tax and VAT queries;
- Preparation of VAT returns;
- Preparing tax strategy for closure of LBUKF; and
- Dealing with tax issues regarding the closure of LB SF No.1 including the final distribution and distribution in specie.

LBL / LBIE recharges - £3,620

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