



First progress report to members & creditors

Private & Confidential

17 September 2013

Company **LB RE Financing No.3 Limited**

Registered number **06455161**

Registered address **7 More London Riverside, London SE1 2RT**

Type of insolvency **Creditors' Voluntary Liquidation**

Date of appointment **23 July 2012**

Appointees **Anthony Victor Lomas, Gillian Eleanor Bruce and Julian Guy Parr**

Address **PricewaterhouseCoopers LLP
7 More London Riverside, London SE1 2RT**

Dividend prospects

**Current estimate
p in £**

Uncertain

***PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, www.pwc.co.uk***

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.



LB RE Financing No.3 Limited
– in Creditors' Voluntary Liquidation

**Joint Liquidators' first progress report to
members and creditors for the period
23 July 2012 to 22 July 2013**

17 September 2013

Contents

		Pages
1	Joint Liquidators' first progress report to members and creditors for the period 23 July 2012 to 22 July 2013	3 – 5
2	Receipts and payments account	6
3	Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013	7 - 11
4	Statement of creditors' rights	12

1. Joint Liquidators' first progress report to members and creditors for the period 23 July 2012 to 22 July 2013

Introduction

In accordance with Rule 4.49C of the Insolvency Rules 1986 ("IR86"), this is the Joint Liquidators' first progress report to members and all known creditors. Attached at Appendix A is a summary of the financial information relating to the Liquidation.

Change of Liquidator

On 23 July 2012, LB RE Financing No.3 Limited (the "Company") moved into Creditors' Voluntary Liquidation following the conclusion of the Administration on the same day. DA Howell, MJA Jervis and AV Lomas were appointed as Joint Liquidators.

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Liquidators and that DA Howell and MJA Jervis cease to be Joint Liquidators of the Company.

The Court also ordered that former Joint Liquidators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as Joint Liquidators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

Asset realisations

During the Liquidation, the Company's assets have been realised as follows:-

- **Cash balances:**

On completion of the Administration, surplus funds of c.£55k were released to the Joint Liquidators.

- **Dividends received:**

Total dividends received during the period in respect of LB REF3's agreed claim of £1.9m against Lehman Brothers International (Europe) ("LBIE") was c.£1.2m. Further dividends are expected to be received from LBIE, however, the quantum and timing are still uncertain.

Asset still to be realised:-

A claim was submitted to Storm Funding Limited ("Storm") on 28 June 2012 comprising £6,198,520 in respect of an intercompany balance and £208,246,789 in respect of Class A notes held by LB REF3 in a SPV known as "Saphir 2". The Joint Administrators of Storm are currently adjudicating the claim.

Receipts and payments account

An account of the Joint Liquidators' receipts and payments for the period from 23 July 2012 to 22 July 2013 is shown in Section 2. All funds are held on interest-bearing accounts.

The receipts and payments account details expenses met from funds in the Liquidation to 22 July 2013.

The IT costs incurred during the period are the Company's contribution to the production and running of the Entity Prioritisation Model ("EPM") the cost of which was initially borne by Lehman Brothers International (Europe).

1. Joint Liquidators' first progress report to members and creditors for the period 23 July 2012 to 22 July 2013

Outcome for Creditors

The statement of affairs prepared by the directors estimated that the claims of unsecured creditors would be \$1,288,267,123. The Liquidators are currently taking steps to collate and agree claims in anticipation of declaring and paying a dividend to unsecured creditors.

There are no secured or preferential creditors.

Investigations

The Joint Liquidators have reviewed the affairs of the Company prior to Liquidation and have also considered the points raised by creditors in discharging their duties under the Company Directors' Disqualification Act 1986.

Creditors are reminded that the Joint Liquidators have a statutory obligation to consider the directors' conduct and to submit a return/report to the Insolvency Service. The Liquidators can confirm that they have complied with this requirement.

Professional advisers

The Joint Liquidators have retained the professional advisers that were engaged in the Administration as shown below.

Name of firm / organisation	Service provided	Reason selected	Basis of fees
Linklaters LLP	Legal advice	Specialist insolvency and industry knowledge	Time costs

The Joint Liquidators' choice was based upon their perception of the advisers' experience and ability to perform this type of work, their knowledge of the complexity and nature of the assignment and the basis of the fee arrangement with them. The Joint Liquidators continue to review the fees charged and remain satisfied that they are reasonable in the circumstances of this case.

Joint Administrators' remuneration

The Joint Administrators' final progress report to creditors dated 18 July 2012 included details of time costs from 1 April to 31 May 2012. Outlined in Section 3 of this report, are details of the Joint Administrators' time costs for the period to 22 July 2012 which comprise £19,761. This represents 67.36 hours at an average hourly rate of £293.36 and has been billed and drawn.

Joint Liquidators' remuneration

Also detailed in Section 3 of this report are the Joint Liquidators' time costs to 30 June 2013. These total £22,635 and represent 78.66 hours at an average hourly rate of £435.04.

Creditors are being asked to approve the fees outlined above by a resolution to be considered at a creditors' meeting listed for 16 October 2013.

Liquidators' disbursements

Category 1 disbursements

The Liquidators have not incurred any category 1 disbursements during the period from the date of appointment to 30 June 2013.

1. Joint Liquidators' first progress report to members and creditors for the period 23 July 2012 to 22 July 2013

Category 2 disbursements

The Liquidators have not incurred any category 2 disbursements during the period from the date of appointment to 30 June 2013.

Additional information

If any creditor requires further explanations on any aspect of the Liquidators' progress report, then please telephone or write to Diane Adebawale, who will be pleased to deal with such enquiries, however, any request for further information regarding the Liquidators' remuneration or disbursements should be made in writing (Rule 4.49E).

In addition, should any creditor consider the Liquidators' remuneration and disbursements to be excessive or inappropriate, they have the right to challenge the amounts in accordance with Rule 4.131 IR86.

Creditors' rights

A statement of creditors' rights in relation to the Joint Liquidators' remuneration and expenses pursuant to IR86 is set out at Section 4.

Next report and enquiries

The Joint Liquidators will circulate their next report in approximately 12 months. If any creditor has any queries in the meantime, please contact Diane Adebawale on 020 721 23515.

Signed.....

GE Bruce
Joint Liquidator

AV Lomas, GE Bruce and JG Parr have been appointed as Joint Liquidators of LB RE Financing No.3 Limited. AV Lomas, 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 Liquidators 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 Liquidation.

2. Receipts and payments account

	As at 22 July 2013 GBP (£)
Receipts	
Release of funds from the Administrators	54,918
Dividends from LBIE	1,221,831
Total Receipts	1,276,749
Payments	
Legal fees	12,651
Employee costs	15,167
IT costs	5,741
Joint administrators' remuneration	19,761
Input VAT	6,112
Total Payments	59,432
Net Position	1,217,317
 Cash Balances	
HSBC - Non-interest bearing account	1,217,317
Total Cash	1,217,317

3. Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013

Charging and disbursements policy

The time charged to the Liquidation is by reference to the time properly given by the Joint Liquidators and their staff in attending to matters arising.

It is the Joint Liquidators' policy to delegate tasks in the Liquidation to appropriate members of staff considering their level of experience and any requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or the Joint Liquidators themselves.

Set out below are the relevant charge-out rates per hour worked for the Joint Liquidators' staff actually or likely to be involved on the assignments from 23 July 2012. Time is charged by reference to actual work carried out. There has been no allocation of any general costs or overhead costs.

Grade	£
Partner	838
Director	639
Senior manager	492
Manager	414
Senior associate	346
Associate	220

Specialist departments within the Joint Liquidators' firm such as Tax and VAT are also used where their expert advice is required. The figures below provide an indication of the maximum rate per hour from 23 July 2012.

Partner	1,027
Director	932
Senior manager	869
Manager	634
Senior Associate	389
Associate / support staff	204

In common with many professional firms, the scale rates used by the Joint Liquidators may increase to cover annual inflationary cost increases.

There is no statutory requirement for the Joint Liquidators to seek approval to draw expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the Joint Liquidators propose to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the Joint Liquidators' own firm), they must be disclosed and be authorised by those responsible for approving their remuneration. Such expenses are known as "Category 2" disbursements and they must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

The Joint Liquidators' expenses policy allows for all properly incurred expenses to be recharged to the case. Category 2 disbursements are approved by the Creditors. There were no Category 2 disbursements during the period.

3. Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013

Analysis of the former Joint Administrators' time costs for the period from 1 April to 22 July 2012

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	0.30	124	3.10	784	10.70	2,354	14.10	3,262
Administration and Planning	1.60	1,341	5.30	2,194	0.30	104	3.00	660	10.20	4,299
Realisation of assets	-	-	-	-	4.50	1,557	-	-	4.50	1,557
Creditors	-	-	0.80	331	-	-	0.30	66	1.10	397
Statutory and Compliance	-	-	7.50	3,206	0.20	69	27.40	6,028	35.10	9,303
Tax and VAT	-	-	1.20	607	-	-	0.40	88	1.60	695
LBL Recharges	0.01	7	0.32	129	0.32	87	0.11	25	0.76	248
Grand Total	1.61	1,348	15.42	6,591	8.42	2,601	41.91	9,221	67.36	19,761

3. Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013

Tasks performed by the former Joint Administrators and their team for the period 1 April to 22 July 2012:-

Accounting and Treasury - £3,262

- Closing Administration bank accounts and opening Liquidation bank accounts;
- Preparing bank mandate for the Liquidation;
- Undertaking receipts and payments;
- Processing payments; and
- Preparing bank reconciliations.

Administration and Planning - £4,299

- Discussing and implementing Liquidation strategy;
- Review of intercompany relationships; and
- Liaising with subsidiary company regarding realisation strategy.

Asset Realisations - £1,557

- Liaising with LBIE in respect of their claims agreement process; and
- Finalising the small claims agreement deed with LBIE.

Creditors - £397

- Liaising with creditors; and
- Updating creditor details.

Statutory and Compliance – £9,303

- Compliance in preparation for the Liquidation;
- Preparation of six monthly review summary milestone;
- Preparation of Administrators' final report
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Prepare detailed remuneration summary;
- Manage the Company's database; and
- Liaise with Administrators on statutory issues.

Tax and VAT - £695

- Tax compliance on moving to Liquidation.

LBL recharges - £248

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

3. Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013

Analysis of the Liquidators' time costs for the period from 23 July 2012 to 30 June 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total Hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	0.40	166	4.50	1,139	6.70	1,474	11.60	2,779
Administration and Planning	1.20	966	7.40	3,064	4.95	1,252	1.50	347	15.05	5,629
Asset Realisations	-	-	2.70	1,118	-	-	-	-	2.70	1,118
Statutory and Compliance	1.00	838	3.80	1,573	2.75	696	2.10	462	9.65	3,569
Tax and VAT	7.60	7,302	1.60	819	0.90	349	0.10	22	10.20	8,492
LBL Recharges	0.04	23	1.60	738	0.66	175	0.53	112	2.83	1,048
Grand Total	9.84	9,129	17.50	7,478	13.76	3,611	10.93	2,417	52.03	22,635

3. Information in support of the Joint Liquidators' time costs from 23 July 2012 to 30 June 2013

Tasks performed by the Joint Liquidators and their team for the period 23 July 2012 to 30 June 2013:-

Accounting and Treasury - £2,779

- Closing Administration bank accounts and opening Liquidation bank accounts;
- Preparing bank mandate for the Liquidation;
- Undertaking receipts and payments;
- Processing payroll; and
- Preparing bank reconciliations.

Administration and Planning - £5,629

- Discussing and implementing Liquidation strategy;
- Review of intercompany relationships; and
- Liaising with subsidiary company regarding realisation strategy.

Asset Realisations - £1,118

- Liaising with LBIE in respect of their claims agreement process; and
- Finalising the small claims agreement deed with LBIE.

Statutory and Compliance – £3,569

- Dealing with statutory compliance on appointment;
- Managing the Company's database;
- Preparing and maintaining the Company files; and
- Liaising with Liquidators on statutory issues.

Tax and VAT - £8,492

- Preparation of VAT returns;
- Preparation of tax computations;
- Tax compliance following move to Liquidation.

LBL recharges - £1,048

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

4. Statement of creditors' rights

Rule 4.49E - Creditors' and members' request for further information

4.49E(1) If (a) within the period mentioned in paragraph (2) (i) a secured creditor, or (ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors including the creditor in question), or (iii) members of the company in a members' voluntary winding up with at least 5% of the total voting rights of all the members having the right to vote at general meetings of the company, or (b) with the permission of the court upon an application made within the period mentioned in paragraph (2) (i) any unsecured creditor, or (ii) any member of the company in a members' voluntary winding up, makes a request in writing to the liquidator for further information about remuneration or expenses set out in a progress report in accordance with Rule 4.49B(1)(e) or (f) (including by virtue of Rule 4.49C(5)) or in a draft report under Rule 4.49D, the liquidator must, within 14 days of receipt of the request, comply with paragraph (3) except to the extent that the request is in respect of matter in a draft report under Rule 4.49D or a progress report required by Rule 4.108 which (in either case) was previously included in a progress report not required by Rule 4.108.

4.49E(2) The period referred to in paragraph (1)(a) and (b) is (a) 7 business days of receipt (by the last of them in the case of an application by more than one member) of the progress report where it is required by Rule 4.108, and (b) 21 days of receipt (by the last of them in the case of an application by more than one member) of the report or draft report in any other case.

4.49E(3) The liquidator complies with this paragraph by either (a) providing all of the information asked for, or (b) so far as the liquidator considers that (i) the time or cost of preparation of the information would be excessive, or (ii) disclosure of the information would be prejudicial to the conduct of the liquidation or might reasonably be expected to lead to violence against any person, or (iii) the liquidator is subject to an obligation of confidentiality in respect of the information, giving reasons for not providing all of the information.

4.49E(4) Any creditor, and any member of the company in a members' voluntary winding up, who need not be the same as the creditors or members who asked for the information, may apply to the court within 21 days of (a) the giving by the liquidator of reasons for not providing all of the information asked for, or (b) the expiry of the 14 days provided for in paragraph (1), and the court may make such order as it thinks just.

4.49E(5) Without prejudice to the generality of paragraph (4), the order of the court under that paragraph may extend the period of 8 weeks or, as the case may be, 4 weeks provided for in Rule 4.131(1B) or 4.148C(2) by such further period as the court thinks just.

4.49E(6) This Rule does not apply where the liquidator is the official receiver.

Rule 4.131 - Creditors' claim that remuneration is or other expenses are excessive

4.131(1) Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the creditors (including that creditor) or the permission of the court, may apply to the court for one or more of the orders in paragraph (4).

4.131(1A) Application may be made on the grounds that (a) the remuneration charged by the liquidator, (b) the basis fixed for the liquidator's remuneration under Rule 4.127, or (c) expenses incurred by the liquidator, is or are, in all the circumstances, excessive or, in the case of an application under sub-paragraph (b), inappropriate.

4.131(1B) The application must, subject to any order of the court under Rule 4.49E(5), be made no later than 8 weeks (or, in a case falling within Rule 4.108, 4 weeks) after receipt by the applicant of the progress report, or the draft report under Rule 4.49D, which first reports the charging of the remuneration or the incurring of the expenses in question ("the relevant report").

4.131(2) The court may, if it thinks that no sufficient cause is shown for a reduction, dismiss the application; but it shall not do so unless the applicant has had an opportunity to attend the court for a hearing, of which he has been given at least 5 business days' notice but which is without notice to any other party. If the application is not dismissed under this paragraph, the court shall fix a venue for it to be heard, and give notice to the applicant accordingly.

4.131(3) The applicant shall, at least 14 days before the hearing, send to the liquidator a notice stating the venue and accompanied by a copy of the application, and of any evidence which the applicant intends to adduce in support of it.

4.131(4) If the court considers the application to be well-founded, it must make one or more of the following orders (a) an order reducing the amount of remuneration which the liquidator was entitled to charge; (b) an order fixing the basis of remuneration at a reduced rate or amount; (c) an order changing the basis of remuneration; (d) an order that some or all of the remuneration or expenses in question be treated as not being expenses of the liquidation; (e) an order that the liquidator or the liquidator's personal representative pay to the company the amount of the excess of remuneration or expenses or such part of the excess as the court may specify; and may make any other order that it thinks just; but an order under sub-paragraph (b) or (c) may be made only in respect of periods after the period covered by the relevant report.

4.131(5) Unless the court orders otherwise, the costs of the application shall be paid by the applicant, and are not payable as an expense of the liquidation.