
LB SF No. 1 - in Creditors' Voluntary Liquidation

Joint Liquidators' progress
report for the year ended 2
October 2014

27 November 2014



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1. Joint Liquidators' progress report to members and creditors for the year ended 2 October 2014

Introduction

On 3 October 2013, DA Howell, AV Lomas and MJA Jervis were appointed Joint Liquidators of LB SF No.1 (**"the Company"** or **"LBSF"**), having previously acted as Joint Administrators of the Company.

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 for the year ended 2 October 2014.

Background

Creditors will recall that the Company holds a number of investments in subsidiary companies. These companies own a variety of performing, sub-performing and non-performing mortgage and other loan portfolios, and were funded through intercompany loans from LBSF.

Asset Realisations

During the Liquidation, the following asset realisations have been made:-

Cash balances

Surplus funds equivalent to £356.2m were released to the Joint Liquidators (**"the Liquidators"**) on completion of the Administration.

Intercompany balances

LBSF has a number of outstanding debtor balances due from insolvent Lehman group companies:-

Lehman Commercial Mortgage Conduit Limited (**"LCMC"**) is a subsidiary of LBSF, and owned a portfolio of loans, which were purchased from Northern Rock with funding from the Company. LBSF's claim against LCMC was admitted for £240,251,420. A second interim dividend of

£69.8m (29.05p/£) was received in September 2014.

Cherry Tree Mortgages Limited (**"Cherry Tree"**) is a subsidiary of LBSF, and owned a portfolio of equity release mortgages purchased from More 2 Life Limited, utilising funding made available by LBSF. LBSF's claim against Cherry Tree was admitted for £25,248,531. A second interim dividend of £10.1m (40p/£) was received in September 2014.

Zestdew Limited (**"Zestdew"**) is a subsidiary of LBSF and owned a portfolio of re-performing consumer debt. LBSF's claim against Zestdew was admitted for £13,841,647. To date, LBSF has received £242,229 (1.75p/£) in respect of its claim; there have been no dividends paid in the reporting period.

In March 2014, the Company's claims against Stepstone Mortgage Funding Limited (**"Stepstone"**) and SM Funding No.1 Limited were distributed in specie to the Company's shareholder, LB UK Financing Limited (**"LBUKF"**).

In September 2014, LBSF's claim against Lehman Brothers Holdings, Inc (**"LBHI"**) was assigned to LBUKF.

Further detail in respect of these transactions is provided later in this report.

Assets still to be realised

Further realisations are anticipated from the debtor balances referred to above. However, the Joint Liquidators' intend to distribute the remaining claims in specie before bringing the Liquidation to an end.

Receipts and Payments Account

An account of the Joint Liquidators' receipts and payments for the year ended 2 October 2014 is shown in Section 2 of this report.

Outcome for Creditors

On 24 June 2013, the Court gave the former Joint Administrators of LBSF permission to make distributions to its unsecured non-preferential creditors. On 16 September 2013, the Administrators declared and paid a dividend of 100p/£, plus statutory interest to those unsecured non-preferential creditors whose claims had been admitted.

It was agreed that the dividend in respect of Lehman Brothers Special Financing Inc.'s ("LBSFI") admitted claim would be paid once the Company had been placed into liquidation. A dividend of £1.5m was paid to LBSFI on 15 January 2014.

Shareholder Distributions

Having paid its sole remaining creditors in full, plus statutory interest, LBSF has subsequently paid a number of cash distributions and a distribution in specie to its parent, LB UK Financing Limited ("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 estate of LBHI. In turn, LBHI has an admitted claim of c.\$3.76bn in the Administration of LBUKF. This gave rise to a circularity of cash flow 'round tripping', 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 September 2014, the Joint Liquidators assigned LBSF's claim against LBHI to LBUKF. The Joint Administrators of LBUKF then entered into a Netting Agreement which provides a mechanism for preventing the round tripping of future distributions from LBHI.

Pension Liability

As reported previously, it was necessary to retain a reserve against possible liability to the Lehman Brothers Pension Scheme under a Financial Support Direction (FSD). Following a settlement agreement with the pension scheme trustees and all other potential FSD targets which became effective on 18 August 2014, LBSF no longer has a potential liability to the pension scheme and accordingly it has been possible to release this reserve.

As part of the settlement, the Company has contributed to certain legal costs of the pension scheme trustees and the Pensions Regulator. The Company has not contributed to the cost of funding pension benefits under the settlement, which is being discharged by other Lehman companies.

Liquidators' Remuneration

At a creditors' meeting held on 8 January 2014, the Liquidators sought and received consent from the sole remaining creditor of LBSF to draw remuneration of £77,876 plus VAT in respect of time costs incurred by the Liquidators and their staff for the period from the date of their appointment to 31 October 2013.

It was also resolved that the Liquidators' fees be fixed by reference to the time properly given by them and their staff in attending matters arising in the winding up.

To date, the Liquidators have drawn remuneration of £741,365 plus VAT for the period to 31 August 2014.

Attached at Section 3 of this report is a summary of the Liquidators' time costs for the period 3 October 2013 to 30 September 2014, presented in accordance with Statement of Insolvency Practice 9 ("SIP9"), together with a narrative of the work performed. Time costs for this period total £788,716 plus VAT, which comprises 1,692.63 hours at an average hourly rate of £466.

Creditors can access a copy of SIP9 at:
<http://www.icaew.com/en/technical/insolvency/insolvency-regulations-and-standards/statements-of-insolvency-practice-sips-england>

Future Reports

The Joint Liquidators will next report to members and creditors at the end of the liquidation or in approximately 12 months' time, whichever is sooner.



DA Howell
Joint Liquidator

DA Howell, AV Lomas and MJA Jervis were appointed as Joint Liquidators of LB SF No.1. DA Howell, AV Lomas and MJA Jervis are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

DA Howell, AV Lomas and MJA Jervis 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

LB SF No. 1 - in Creditors' Voluntary Liquidation

Abstract of Receipts and Payments for the year ended 2 October 2014

	GBP	USD	EUR
Receipts			
Release of funds from the Administrators	124,811,663	374,085,751	5,299
Distributions received	79,892,450	-	-
Repayment of loans	21,058	-	-
Interest received gross	571,090	101,495	-
Total Receipts	205,296,261	374,187,246	5,299
Payments			
Legal fees and disbursements	1,245,869	-	-
Office holders' remuneration	741,365	-	-
Office holders' Category 2 disbursements	86,587	-	-
Contribution to employee costs	128,127	-	-
Pension costs	25,570	-	-
Accountants' fees	2,700	-	-
Statutory costs	1,720	-	-
Corporation tax payments	150,350	-	-
VAT payments	5,225	-	-
Irrecoverable VAT	409,605	-	-
Total Payments	2,797,118	-	-
Intra-company transfers			
Receipts	138,571,275	-	-
Payments	-	(230,263,888)	-
Total receipts less total payments	341,070,418	143,923,358	5,299
Distributions			
Distribution to LB SF Inc at 100p in the £ plus statutory interest held over from Administration	1,504,767	-	-
Distributions to Shareholder	284,265,578	143,912,929	-
Total distributions	285,770,345	143,912,929	-
Total receipts less total payments and distributions	55,300,073	10,429	5,299
Cash balances			
HSBC (non-interest bearing)	470,763	10,429	5,299
Money markets	54,829,310	-	-
Total Cash	55,300,073	10,429	5,299

1. In February 2014, LBSF made a distribution in specie to LBUKF comprising of an assignment of receivables of €10,537,696.61 plus accruing interest due from Stepstone and an assignment of receivables of €198,455,263.67 plus accruing interest due from SM Funding No.1 Limited.
2. Funds are invested on the money markets in order to accrue interest and manage risk.

3. The Joint Liquidators' time costs for the period 3 October 2013 to 30 September 2014

Joint Liquidators' time costs for the period 3 October 2013 to 30 September 2014

Classification of Work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	Cost (£)	Hours	Cost (£)	Hours	Cost (£)	Hours	Cost (£)	Hours	Cost (£)
Accounting and Treasury	0.05	33	100.45	43,931	143.60	42,934	155.70	35,655	399.80	122,553
Strategy and Planning	157.75	116,281	140.00	62,033	62.95	22,633	38.95	7,520	399.65	208,467
Realisation of Assets	-	-	-	-	2.85	1,026	-	-	2.85	1,026
Creditors	-	-	2.70	1,164	6.25	2,231	3.82	875	12.77	4,270
Statutory and Compliance	-	-	41.55	18,279	101.00	36,010	41.20	9,386	183.75	63,675
Pensions	131.01	95,275	124.38	58,569	78.46	27,870	32.74	7,497	366.59	189,211
Tax and VAT	106.20	95,245	164.60	89,331	20.35	7,064	14.95	2,299	306.10	193,939
LBIE Recharges	0.54	369	2.75	1,206	5.31	1,296	12.52	2,704	21.12	5,575
Total	395.55	307,203	576.43	274,513	420.77	141,064	299.88	65,936	1,692.63	788,716

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 Liquidators' remuneration has been fixed by reference to the time properly given by the Liquidators and their staff in attending to matters arising in the Liquidation. The maximum unit for time charged by the Liquidators 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 Liquidators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increase) over the period of the Liquidation. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Narrative of the Joint Liquidators' time costs for the period 3 October 2013 to 30 September 2014

Accounting and Treasury - £122,553

- 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- £208,467

- Discussions regarding strategy for the Liquidation;
- Preparation of six monthly internal case review for the Liquidators;
- Dealing with 'round tripping' proposal and Netting Agreement;
- Reviewing financial information and intercompany relationships; and
- Discussion regarding exit strategy and relationship with subsidiary companies.

Realisation of Assets - £1,026

- Review of debtor balances

Creditors - £4,270

- Liaison with the sole remaining creditor, LBSFI;
- Calculation of the statutory interest due to LBSFI; and
- Arranging payment of the final dividend.

Statutory and Compliance - £63,675

- Statutory filings at Companies House and Court;
- Preparing receipts and payments account;
- Preparing detailed remuneration summary;
- Managing the LBSF database; and
- Liaising with Liquidators on statutory issues.

Pensions - £189,211

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

Tax and VAT - £193,939

- Tax compliance;
- Reviewing the tax implications of 'round tripping' proposal;
- Dealing with tax and VAT queries; and
- Preparation of VAT returns.

LBIE Recharges - £5,575

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