
Lehman Brothers UK Holdings Limited – In Administration

Joint Administrators' progress
report for the period 29 March 2014
to 28 September 2014

27 October 2014

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Purpose of the Joint Administrators’ progress report

Introduction

This is the 12th progress report by the Joint Administrators (the “Administrators”) of Lehman Brothers UK Holdings Limited (“LBUKH” 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 28 September 2014.

Objective of the Administration

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

The specific aim of this Administration is to protect and control any return on the Company’s investments in subsidiaries and intercompany book debts, for the benefit of the unsecured creditors, of LBUKH.

Outcome for creditors

On 2 May 2014, the Court granted the Administrators permission to agree the claims of unsecured non-preferential creditors and pay a dividend thereon.

On 4 September 2014, the Administrators declared and paid a first interim dividend of 100p pence in the £ to the Company’s unsecured creditors whose claims had been admitted.

There remain two unsecured claims that have been submitted in the estate which are being adjudicated by the Administrators.

Pension liability

As previously reported, the Pensions Regulator’s determination panel issued a Financial Support Direction (“FSD”) against LBUKH and five other entities (including three other UK companies in administration) in relation to the Lehman Brothers Pension Scheme.

The FSD required financial support to be provided to the pension scheme, in relation to the scheme’s deficit. LBUKH appealed against this decision and has been involved in an ongoing court process. The hearing to determine whether a FSD should be made, and against which entities, was due to be held at the Upper Tribunal in February 2015.

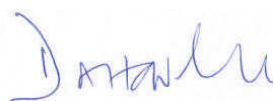
However, following a settlement agreement with the pension scheme trustees and all other potential FSD targets, which became effective on 18 August 2014, LBUKH no longer has a potential liability to the pension scheme.

As part of the settlement, LBUKH has contributed £0.4m to certain legal costs of the pension scheme trustees and the Pensions Regulator. LBUKH has not contributed to the cost of funding pension liabilities under the settlement, which is being discharged by other Lehman companies.

Future reports

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

Signed:



DA Howell
Joint Administrator
Lehman Brothers UK Holdings Limited

AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers UK Holdings 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.

Joint Administrators' actions to date

Background

LBUKH is the holding company for Lehman Brothers Holdings plc and Lehman Brothers (PTG) Limited, both of which are in Administration. The Company principally acted to manage the flow of investment funds between these subsidiaries.

The book value of debtors at the date of Administration was c.\$45m.

Administrators' actions to date

As previously reported, in October 2011 the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") in conjunction with other UK affiliates and certain other affiliates previously subject to Chapter 11 proceedings in the USA. Pursuant to this agreement, LBUKH had its guarantee claim against LBHI agreed at \$608.9m and its direct claim agreed at \$10.6k

On 3 April 2014, LBUKH received a fifth dividend of \$30.2m from LBHI. As at 28 September 2014, LBUKH has received dividends totalling \$127.3m. These funds were converted into GBP to minimise the foreign exchange risk.

On 2 October 2014, LBHI made a sixth distribution of \$22.6m. These funds were received after the period covered by this report and are therefore excluded from the attached receipts and payments account. Further dividends from LBHI are expected to be received on a six monthly basis.

During the period, LBUKH also received the following dividends:

- A first interim dividend of £796.2k from Lehman Brothers Holdings plc;
- A second interim dividend of £1.4k from Mable Commercial Funding Ltd; and
- Third and fourth interim dividends of £3k and £1.3k, respectively, from Storm Funding Ltd.

First interim distribution paid to unsecured creditors

As stated in the previous progress report, the Administrators had concluded that it was appropriate to pay a dividend to LBUKH's unsecured non-preferential creditors and applied to

Court for permission to do so. The Court granted such permission to the Administrators on 2 May 2014.

The Administrators issued a Notice of Intended Dividend on 13 June 2014 to the unsecured non-preferential creditors of LBUKH, setting a final date for proving of 31 July 2014.

On 4 September 2014, the Administrators declared and paid a first interim dividend of 100 pence in the £ to unsecured creditors whose claims had been admitted.

Creditors' rights to surplus funds

The Administrators anticipate that LBUKH will be able to pay all its unsecured non-preferential creditors in full and that a substantial surplus will be available to pay statutory interest and/or distributions to the Company's subordinated creditor, Lehman Brothers Luxembourg Investments S.a.r.l.

In March 2013, the Joint Administrators of Lehman Brothers International (Europe) ("LBIE") issued a joint application with the Joint Administrators of both Lehman Brothers Limited ("LBL") and LB Holdings Intermediate 2 Limited – the "Waterfall Application". One of the issues dealt with by the Waterfall Application is the ranking of claims to the surplus assets in an administration, once all provable creditor claims have been paid in full. The first instance judgement is being appealed and is due to be heard in March 2015.

The Administrators are monitoring LBIE's progress in this process, whilst also evaluating alternative approaches to dealing with the surplus in LBUKH.

Full details of the Waterfall Application are available at www.pwc.co.uk/Lehman.

Outstanding matters

The Administrators will continue their work to adjudicate the remaining unsecured claims in LBUKH's estate and realise the intercompany investments and debtors of LBUKH.

Once all non-subordinated creditor claims have been dealt with the Administrators may seek to agree a consensual settlement of the issues raised in the Waterfall Application between the parties involved in order to expedite progress.

Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8445 of 2008
<i>Full name:</i>	Lehman Brothers UK Holdings Limited
<i>Trading name:</i>	Lehman Brothers UK Holdings Limited
<i>Registered number:</i>	02074637
<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) and AJ Rush (resigned 28/10/08).
<i>Company secretary:</i>	M Smith (resigned 25/01/10), P Dave (resigned 25/01/10), ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in LBUKH
<i>Date of the Administration appointment:</i>	29 September 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 LBUKH's creditors as a whole than would be likely if LBUKH were 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 any or all of the Joint Administrators may be done by any 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 30 November 2015.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However it is most likely that the Administrators will continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so on 2 May 2014). If this route is pursued, once the final distribution has been made they will apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 100p in the £ to unsecured creditors on 3 September 2014. The quantum and timing of any further payment relating to statutory interest remains uncertain at present.
<i>Estimated values of the prescribed part and LBUKH's net property:</i>	There is no prescribed part, 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 does apply to this Administration and these are the main proceedings.

Financial Information

Administrators' remuneration

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

In June 2013, subsequent approval was sought and received from LBUKH's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The creditors also resolved that the Administrators may draw their time costs on account from time to time.

To date, the Administrators have drawn remuneration of £450,848 plus VAT in respect of total time costs incurred from the date of their appointment to 30 June 2014.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 March 2014 to 30 September 2014, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £183,859 plus VAT, comprising 487.08 hours at an average hourly rate of £377. Details of time costs incurred in earlier periods have been provided in earlier reports. During the reporting period, remuneration of £136,322 plus VAT has been paid in relation to time costs incurred between 1 January 2014 and 30 June 2014.

Receipts and payments account

An account of the receipts and payments for the six months to 28 September 2014, together with a cumulative total since commencement of the Administration, is set out in Section 5.

Net receipts as at 28 September 2014 total approximately £74.2m.

Receipts and Payments Account

	Notes	28-Sep-14	28-Mar-14	28-Sep-14	28-Mar-14
			GBP Movements in Period	USD Movements in Period	
Receipts					
Dividend from LBHI		-	-	127,326,696	97,175,769
Dividend from LBHI Plc		796,120	796,120	-	-
Other intercompany debtors		16,830	6,780	-	-
Book debts		10,753	10,753	-	-
Recharge of tax function costs		32,886	32,886	-	-
Corporation Tax refunds		6,405	6,405	-	-
Net VAT refund	(1)	17,189	660	-	-
Interest		352,709	126,565	-	-
Total Receipts		1,232,892	930,125	127,326,696	97,175,769
Payments					
Legal fees		24,931	13,206	-	-
Payment for tax losses		3,535	-	-	-
Employee costs		1,781	-	-	-
Bank charges		8	-	127	40
IT costs		5,741	-	-	-
Statutory advertising		10,158	10,158	-	-
Pension costs		392,140	392,140	-	-
Joint Administrators' remuneration		450,849	136,323	-	-
Joint Administrators' category 1 disbursements		1,618	-	-	-
Input VAT		86,460	29,296	-	-
Total Payments		977,221	581,123	127	40
Intercompany Transfers					
Payment		-	-	(127,325,487)	(97,174,600)
Receipt		79,440,242	18,193,983	61,246,259	-
Total receipts less total payments		79,695,913	18,542,985	1,082	1,082
Distributions					
1st dividend to unsecured creditors at 100p in the £, declared on 4 September 2014		5,500,000	5,500,000	-	-
Total		74,195,913	13,042,985	1,082	1,082
Cash Balances					
HSBC		501,232	400,421	1,082	1,082
Money market deposits	(2)	73,694,681	12,642,565	-	-
Total Cash/Movements	(3)	74,195,913	13,042,986	1,082	1,082

Notes

(1) Receipts of £17,657 in May 2013, which had previously been attributed to corporation tax refunds have been identified as refunds of input VAT and recategorised accordingly. Due to the nature of the Company's former business, it is not entitled to recover input VAT and therefore an adjustment will be made in HMRC's favour in the next VAT return.

(2) Funds are invested on the money markets in order to accrue interest and to manage risk.

(3) Total Cash as at 28 September 2014 based on exchange rates on 26 September 2014 was £74,196,580.63.

Joint Administrators' time costs for the period 1 March 2014 to 30 September 2014

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.25	166	37.45	16,257	51.70	15,146	31.85	7,294	120.95	38,863
Administration and Planning	14.70	10,920	21.70	9,426	24.70	8,863	16.70	3,824	77.80	33,033
Creditors	-	-	7.70	3,319	16.40	5,729	14.05	3,217	38.15	12,265
Statutory and Compliance	-	-	13.10	5,679	16.70	6,012	33.95	7,775	63.75	19,466
Pensions	34.98	25,184	47.01	21,725	31.77	11,437	13.43	3,075	127.19	61,421
Tax and VAT	1.00	1,069	6.35	3,951	24.70	9,340	24.30	3,703	56.35	18,063
LBL Recharges	0.16	107	0.35	146	0.22	50	2.16	445	2.89	748
Grand Total	51.09	37,446	133.36	60,503	166.19	56,577	136.44	29,333	487.08	183,859
Average Hourly Rate		733		454		340		215		377

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr		Max £/hr	
	To 30 June 2014	From 1 July 2014	To 30 June 2014	From 1 July 2014
Grade				
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	229

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 maximum 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 March 2014 to 30 September 2014

Accounting and Treasury - £38,863

- Managing investments on the money market;
- Mitigating risk on investments;
- Reconciling bank accounts;
- Preparing for and making a distribution to unsecured creditors; and
- Undertaking receipts and payments of funds and coding of movements.

Administration and Planning - £33,033

- Discussions regarding strategy for the Administration;
- Reviewing financial information and intercompany relationships; and
- Updating strategy documents.

Creditors - £12,265

- Maintaining record of creditor claims;
- Liaising with various creditors in respect of their claims; and
- Reviewing and adjudicating creditor claims submitted.

Statutory and Compliance – £19,466

- Preparation of the Administrators' 11th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparing receipts and payments account;
- Preparing detailed remuneration summary;
- Maintaining LBUKH's records; and
- Liaising with Administrators on statutory issues.

Pensions - £61,421

- Consideration of appropriate strategy with regard to the potential pensions liability;
- Monitoring the implications of the Supreme Court judgment in respect of the pension issue;
- Liaising with legal advisors regarding pension strategy;
- Preparation for settlement agreement;
- Liaising with various parties and legal advisors in relation to settlement agreement; and
- Negotiating final settlement agreement.

Tax and VAT - £18,063

- Detailed review of LBUKH's tax accounting processes and submission of Senior Accounting Officer certificate to HM Revenue & Customs for FY13 as required under The Finance Act 2009;
- Review of the 2013 corporation tax computation and return;
- Review of tax provision figures for input into estimated outcome statements; and
- VAT reconciliation and preparation of VAT returns.

LBL Recharges - £748

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