
Lehman Brothers UK Holdings Limited – In Administration

Joint Administrators' progress
report for the period 29 September
2015 to 28 March 2016

25 April 2016

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 15th 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 March 2016 ("the reporting period").

Objective of the Administration

The Administrators are pursuing the objective of achieving a better result for LBUKH'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 and control any return on the Company's investments in subsidiaries and intercompany book debts, for the benefit of LBUKH's ordinary unsecured creditors.

Outcome for creditors

On 2 May 2014, the Court granted the Administrators permission to make distributions to LBUKH's unsecured creditors.

(i) Ordinary unsecured creditors

As detailed in previous reports, the Administrators have paid £5.5m by way of a first and final dividend of 100 pence in the pound to unsecured creditors with admitted claims.

As explained in Section 2, statutory interest will not be paid on unsecured claims.

(ii) Subordinated creditor

On 17 February 2015 a first interim dividend of £50k was paid to the Company's sole subordinated creditor, Lehman Brothers Luxembourg Investments S.a.r.l. ("LBLIS"), pending a decision on how surplus funds in the LBUKH estate should be distributed.

Shortly after the reporting period, the Administrators declared and paid to LBLIS a second interim dividend of c.£81.3m, equivalent to 7.7183p in the £.

Extension to the Administration and exit

On 5 November 2015, the High Court granted the Administrators' application to extend their term of office by a further two years to 30 November 2017.

However, positive developments during the reporting period mean that the Administrators now consider they may be able to cease to act later this year.

Discharge

In accordance with the Administrators' proposals, which were approved by creditors on 3 December 2008, the Administrators intend to make an application to Court to obtain their discharge following the end of the Administration.

Creditors will be notified once the date for the Court hearing has been set.

Future reports

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

Signed



GE Bruce
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 bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>*

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

At the date of the Administrators' appointment, LBUKH was the holding company for Lehman Brothers Holdings plc ("LBH") 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

Lehman Brothers Holdings Inc. ("LBHI")

In October 2011, the Administrators entered into a settlement agreement with 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's guarantee claim against LBHI was agreed at \$608.9m and its direct claim agreed at \$10.6k.

On 2 October 2015, LBUKH received an eighth dividend of c.\$11.8m from LBHI. This brings total dividends from LBHI to c.\$177.2m

Shortly after the reporting period, LBUKH received a ninth distribution from LBHI of c.\$3.3m.

Lehman Brothers Holdings plc ("LBH")

On 10 February 2016, LBUKH received a second interim distribution from LBH for c.£0.4m in respect of its admitted claim of £19.5m. To date, LBUKH has received dividends totalling c.£1.2m from LBH.

Earlier in the Administration, LBUKH settled an ordinary unsecured claim at £70k. Liability for this claim is shared with Lehman Brothers Holdings plc ("LBH") and as such, the Administrators submitted a supplementary claim against LBH for half of the settlement amount. This sum was recently admitted by LBH.

Outcome for creditors

When the Administrators last reported, they were in discussions with LBUKH's ordinary unsecured

creditors and its subordinated creditor regarding the distribution of LBUKH's surplus.

The Administrators are pleased to report that a resolution has now been reached: -

- Ordinary unsecured creditors have agreed to accept the dividend already paid of 100p in the £ in full and final settlement of their claims and not to pursue LBUKH for statutory interest.
- This agreement means that surplus funds can be distributed to LBLIS as subordinated creditor.
- In late 2015, LBUKH and LBLIS submitted a joint application seeking directions from the Court to establish how LBUKH should proceed to distribute to its subordinated creditors in light of the various loan agreements between LBUKH and LBLIS. At a hearing on 13 January 2016, the Court ruled that it would be appropriate for the Administrators to distribute funds to LBLIS under the subordinated loan agreements.

In light of the Court judgment, shortly after the reporting period, the Administrators declared and paid a second interim distribution to LBUKH's subordinated creditor equivalent to c.£81.3m.

The Administrators anticipate that a third and final distribution will be made to LBLIS. The Administrators also propose to make a distribution in specie of the Company's future receivables from LBHI and LBH and other assets to LBLIS so that the Administration of LBUKH can be brought to an end.

The timing and quantum of the final distributions in cash and in specie to LBLIS are subject to closing expenses deductible from funds in hand, agreeing the terms of an in specie distribution and final tax clearance from HM Revenue & Customs ("HMRC").

Investigations and actions

Nothing has come to the Administrators' attention during the reporting period to suggest that any further work is required in accordance with our duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

Tax clearance

The Administrators are in the process of bringing the Company's corporate tax returns up to date with a view to obtaining final tax clearance from HMRC.

Discharge

Once the matters referred to above have been finalised, the Administrators will apply to Court to obtain their discharge from liability in respect of any actions of theirs whilst in office as joint administrators of the Company.

Section 3 Statutory and other Information

Court details for the Administration: High Court of Justice, Chancery Division, Companies Court - case 8445 of 2008

Full name: Lehman Brothers UK Holdings Limited

Trading name: Lehman Brothers UK Holdings Limited

Registered number: 02074637

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

Date of the Administration appointment: 29 September 2008

Current Administrators' names and addresses: Anthony Lomas, Steven Pearson, Derek Howell, Gillian Bruce and Guy Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.

Appointer's / applicant's name and address: The original appointment of Administrators was made by the directors of the Company, 7 More London Riverside, London, SE1 2RT

Objective being pursued by the Administrators: 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)

Division of the Administrators' responsibilities: 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.

Details of any extensions of the initial period of appointment: The High Court of Justice has granted five successive extensions to the Administration period to: 30 November 2010, 30 November 2011, 30 November 2013, 30 November 2015 and most recently 30 November 2017.

Section 4 Financial Information

Administrators' remuneration

In June 2013, approval was obtained 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 £891,441 plus VAT in respect of time costs incurred from the date of their appointment to 31 December 2015.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 September 2015 to 29 February 2016 together with a narrative of the work performed. Time costs for this period total £181,347, comprising 391.89 hours at an average hourly rate of £463.

During the reporting period, remuneration of £134,046 plus VAT has been drawn in relation to time costs incurred between 1 September and 31 December 2015.

Statement of Insolvency Practice number 9 (SIP9)

SIP9 sets the disclosure standards required of an insolvency office holder in respect of fees, expenses and payments to associates. SIP9 was revised with effect from 1 December 2015 and applies to all open insolvencies.

The Administrators have received written confirmation that the Company's sole remaining creditor, LBLIS, does not require the Administrators to provide the additional information stipulated in the revisions to SIP9.

Disbursements

The Administrators are not required to seek approval to draw expenses or disbursements unless they are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying, communication facilities. These types of expenses are called "Category 2" disbursements and they must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves our fees.

The Administrators' expenses policy allows for all properly incurred expenses to be recharged to the Administration.

The Joint Administrators have incurred Category 1 disbursements of £1,618 to date.

There have been no disbursements incurred during the reporting period.

Receipts and payments account

An account of the receipts and payments for the six months to 28 March 2016, and a cumulative total since commencement of the Administration, is set out in Section 5 overleaf.

Key movements in the period

- c. £391k dividend received from LBH;
- Interest received of c. £167k; and
- Administrators' fees of c. £134k.

Net receipts as at 28 March 2016 are equivalent to £105.9m.

Creditors' rights

Creditors have the right to challenge the Administrators' remuneration or other expenses if they think that they are excessive. An explanatory note giving creditors a statement of their rights in relation to the Administrators' remuneration and expenses, and their rights to request further information, can be found online at:

<http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx>

Creditors can request a paper copy of the above guide by contacting Lehman.affiliates@uk.pwc.com.

Section 5 Receipts and Payments Account

	GBP Movements			USD Movements		
	28-Mar-16	in Period	28-Sep-15	28-Mar-16	in Period	28-Sep-15
Receipts						
Dividends from LBHI	-	-	-	177,179,328	11,780,037	165,399,291
Dividends from LBH Plc	1,187,075	390,955	796,120	-	-	-
Intercompany debtors	110,488	-	110,488	-	-	-
Book debts	10,753	-	10,753	-	-	-
Recharge of tax function costs	32,886	-	32,886	-	-	-
Corporation Tax Refunds	6,405	-	6,405	-	-	-
Interest	814,200	166,543	647,657	-	-	-
Total Receipts	2,161,807	557,498	1,604,309	177,179,328	11,780,037	165,399,291
Payments						
Legal fees	136,694	54,208	82,486	-	-	-
Joint Administrators' remuneration	891,441	134,046	757,395	-	-	-
Joint Administrators' category 1 disbursements	1,618	-	1,618	-	-	-
Pension related legal costs	603,959	-	603,959	-	-	-
Corporation tax	85,000	-	85,000	-	-	-
Payment for tax losses	9,944	-	9,944	-	-	-
Employee costs (Note 3)	25,223	23,644	1,579	-	-	-
Bank charges	8	-	8	352	75	277
IT costs	5,741	-	5,741	-	-	-
Statutory Advertising	28,890	9,576	19,314	-	-	-
Settlement of late claiming creditor	70,000	-	70,000	-	-	-
Irrecoverable VAT	195,605	39,566	156,039	-	-	-
Total Payments	2,054,124	261,041	1,793,083	352	75	277
Intracompany Transfers						
Payment	-	-	-	(177,177,976)	(11,780,627)	(165,397,349)
Receipt	111,393,112	7,664,190	103,728,922	-	-	-
Total receipts less total payments	111,500,796	7,960,648	103,540,148	1,000	(665)	1,665
Distributions						
First distribution to ordinary unsecured creditors on 4 September 2014	5,500,000	-	5,500,000	-	-	-
First distribution to subordinated creditors on 17 February 2015	50,000	-	50,000	-	-	-
Total	105,950,796	7,960,648	97,990,148	1,000	(665)	1,665
Cash Balances						
HSEC	1,332,180	366,729	965,451	1,000	(665)	1,665
Money market deposits	104,618,616	7,593,919	97,024,697	-	-	-
Total Cash/Movements	105,950,796	7,960,648	97,990,148	1,000	665	1,665

Notes:

- (1) Total Cash as at 28 March 2016 based on exchange rates on 28 March 2016 was £105,951,498.
- (2) Funds are invested on the money markets in order to accrue interest and to manage risk.
- (3) Includes £20k payment on account to LB SF Warehouse Limited for prefunding of employee payroll.
- (4) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.

Section 6 Joint Administrators' time costs for the period 1 September 2015 to 29 February 2016

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	24.65	11,998	86.45	25,803	11.10	2,579	122.20	40,380
Strategy and Planning	77.30	62,300	46.40	21,402	23.20	6,367	4.90	1,156	151.80	91,225
Statutory and Compliance	2.40	1,925	10.10	4,496	31.35	8,581	24.75	5,841	68.60	20,843
Tax and VAT	10.70	11,424	23.15	13,269	9.10	2,747	4.08	767	47.03	28,207
LBIE Recharges	0.03	30	0.04	38	2.19	624	-	-	2.26	692
Grand Total	90.43	75,679	104.34	51,203	152.29	44,122	44.83	10,343	391.89	181,347
Average Hourly Rate		837		491		290		231		463

Current charge out rates	Business Recovery Services	Specialist	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.
	Max £/hr	Max £/hr	
Grade	From 1 July 2015	From 1 July 2015	
Partner	899	1,262	* 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.
Director	788	1,108	
Senior manager	789	932	
Manager	790	680	
Senior Associate	791	505	
Associate/Support Staff	792	235	

* Recharge calculations can result in time units of less than the minimum of three minutes.

Narrative of the Joint Administrators' time costs for the period 1 September 2015 to 29 February 2016

Accounting and Treasury - £40,380

- Provision of information for the purposes of statutory reporting;
- Analysis of interest rates available with counterparties;
- Active management of investments on the money market, and mitigating risk on such investments;
- Due consideration of best strategy for dealing with investments;
- Arrangement of receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts; and
- Daily monitoring of the funds held, coordinating with case team to ensure that the optimal level of funds are held on deposit.

Strategy and Planning - £91,225

- Preparation of an application to Court to extend the Administration and the requisite witness statement and progress report;
- Preparation for the joint application to Court to seek directions on the trust issue referred to in this report;
- Review of the strategy for the Administration in relation to various matters, regular team meetings to discuss case progression;
- Review and maintenance of financial information;
- Preparation for the second interim dividend to the subordinated creditor;
- Liaison with creditors on a range of issues;
- Debtor strategy review; and
- Liaison with specialist teams.

Statutory and Compliance - £20,843

- Preparation of the Administrators' 14th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and the Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparing detailed remuneration summary;
- Undertaking six monthly case reviews;
- Managing information available on website; and
- Maintaining case files and the LBUKH database.

Tax and VAT - £28,207

- Preparing corporation tax computations;
- Dealing with tax and VAT queries;
- Preparation and submission of VAT returns; and
- Reviewing and providing input for correspondence with HMRC.

Lehman Brothers International (Europe) ("LBIE") Recharges - £692

- This is an apportionment of the costs incurred by LBIE and levied on associated entities in connection with services provided to the administration companies.

Relationships

The Administrators have no business or personal relationships with the parties who approve their fees or who provide services to the Administration where the relationship could give rise to a conflict of interest.

Details of subcontracted work

Certain centralised services are undertaken on behalf of LBUKH by employees retained by LBIE; this includes the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LBUKH on a time costs basis and are disclosed separately as part of the Administrators' fee analysis (see above).

Legal and other professional firms

The Administrators have instructed the following professionals on this case. The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services:	<i>Linklaters LLP</i>	<i>Prior/Industry knowledge</i>	<i>Time costs</i>
	<i>Dentons UKMEA LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

All invoices from professional firms are supported by a narrative and reviewed before being approved for payment.