
LB UK Financing Limited – In Administration

Joint Administrators' progress
report for the period 2 October 2013
to 1 April 2014

30 April 2014

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eleventh 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 our appointment, with particular focus on the progress made in the six months to 1 April 2014.

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 is 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 agree and pay a dividend in respect of the claims of its unsecured non-preferential creditors (“**unsecured creditors**”).

In October 2013, the Administrators declared and paid a first interim dividend of 0.088 pence in the £ to the Company's unsecured creditor, a second interim dividend of 2.935 pence in the £ was declared and paid in March 2014.

The Administrators anticipate that further dividends will be paid to creditors as and when funds are distributed by LBSF to LBUKF, as its sole shareholder.

LBSF was placed into Creditors' Voluntary Liquidation on 3 October 2013. LBSF has paid its admitted unsecured creditors in full, plus statutory interest.

Following its move into Liquidation, LBSF has made a cash distribution and a distribution in specie of a shareholding in an Irish mortgage

lender to LBUKF. This is discussed in further detail in section 2 of this report.

Pension liability

Following the Supreme Court judgment in July 2013, to which we referred in our last report, the stay which had been in force for the Upper Tribunal proceedings came to an end.

The Upper Tribunal has the role of deciding whether a FSD should be made, and against which entities. LBUKF is one of the potential targets of a FSD. The Upper Tribunal has set a date in February 2015 for a substantive hearing.

Also, since their previous progress report, the Administrators have participated in a High Court application relating to the maximum quantum of any Contribution Notice (“CN”). The High Court held that the aggregate liability under potential CNs issued to more than one target company could exceed the amount of £119m. This judgment is being appealed.

In the light of the activity set out above, the risk of LBUKF having a liability to the pension scheme under a FSD remains, and the Administrators continue to monitor the position and take steps as appropriate.

Extension of the Administration

On the application of the Administrators, the High Court made an order to extend the period of the Administration to 30 November 2015.

Section 1 Purpose of the Joint Administrators' progress report

Future reports

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

Signed:

A handwritten signature in blue ink, appearing to read 'DA Howell', is shown on a light blue background.

DA Howell
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. LBSF and its subsidiaries invested in a variety of performing and non-performing loan portfolios.

Administrators' actions to date

The Administrators continue to closely monitor the most significant asset of the Company, its investment in LBSF. The level of realisations within LBSF will determine the final level of realisations of LBUKF.

As referred to earlier in this report, the creditors of LBSF have been paid in full, plus statutory interest. Accordingly, any surplus in LBSF is payable to LBUKF.

Shareholder distributions

On 4 February 2014, a distribution in specie of €208m was made by LBSF to LBUKF in respect of its shareholding in Stepstone. The distribution comprised an assignment of the receivables due to LBSF from Stepstone and its subsidiary, SMF.

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 March 2014, LBSF made a first cash distribution of \$143m to LBUKF.

Further distributions are expected to be received from LBSF in due course. However, the timing and quantum of any further distributions are largely subject to the resolution of the pension matter, which is explained in section 1 of this report.

It is also anticipated that further assets, primarily LBSF's claim against LBHI of c\$2.8bn, will be assigned to LBUKF in due course.

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 not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors
<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

Administrators' remuneration

In August 2011, the Administrators requested and received consent from the creditors 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 has been drawn in respect of timecosts incurred since 1 May 2011.

The Administrators are to convene a Notice of Meeting by Correspondence to obtain formal approval that they may draw their remuneration for the period 1 May 2011 to 31 March 2014.

In the event that the Administrators are unable to obtain approval for their remuneration from the Company's creditors, such approval will have to be sought from the Court as the only alternative available to the Administrators. The Administrators hope to avoid this as it is a particularly lengthy and costly process.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2013 to 31 March 2014, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £70,108 plus VAT, which comprises 171.29 hours at an average hourly rate of £409. Details of time costs incurred in earlier periods have been provided in earlier reports.

Receipts and payments account

An account of the receipts and payments for the six months to 1 April 2014, together with a cumulative total since commencement of the Administration, is set out in Section 5.

Net receipts as at 1 April 2014 total approximately £23.8m.

Section 5 Receipts and Payments Account

	As at 1 April 2014 GBP (£)	Movements GBP (£)	As at 1 October 2013 GBP (£)	As at 1 April 2014 USD (\$)	Movements USD (\$)	As at 1 October 2013 USD (\$)
Receipts						
Shareholder distribution from LB SF No.1	-	-	-	143,912,929	143,912,929	-
VAT refunds	1,019	1,005	14	-	-	-
Recharge of tax function costs	23,827	-	23,827	-	-	-
Bank interest	403	403	-	-	-	-
Sale of tax losses	2,169,341	-	2,169,341	-	-	-
Total Receipts	2,194,589	1,408	2,193,181	143,912,929	143,912,929	-
Payments						
Legal fees	21,342	-	21,342	-	-	-
Employee costs	34,695	28,399	6,296	-	-	-
Shared occupancy costs	2,777	-	2,777	-	-	-
IT costs	5,741	-	5,741	-	-	-
Shares in subsidiaries	4	-	4	-	-	-
Loan to LBL in respect of VAT costs	428	-	428	-	-	-
Joint Administrators' remuneration	99,365	-	99,365	-	-	-
Joint Administrators' Category 1 disbursements	109	-	109	-	-	-
Statutory advertising	20,378	10,077	10,301	-	-	-
VAT Paid	21,874	2,015	19,859	-	-	-
Total Payments	206,713	40,492	166,221	-	-	-
Net Position	1,987,876	(39,084)	2,026,960	143,912,929	143,912,929	-
Intracompany Transfers						
Receipt	22,898,950	22,898,950	-	-	-	-
Payment	-	-	-	(38,041,366)	(38,041,366)	-
Total receipts less total payments	24,886,826	22,859,866	2,026,960	105,871,563	105,871,563	-
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 £, declared in March 2014	-	-	-	(104,485,850)	(104,485,850)	-
Total	23,000,772	20,973,812	2,026,960	1,385,713	1,385,713	-
Cash Balances						
HSBC (non-interest bearing)	193,468	(1,833,492)	2,026,960	1,385,713	1,385,713	-
Money markets	22,807,304	22,807,304	-	-	-	-
Total Cash	23,000,772	20,973,812	2,026,960	1,385,713	1,385,713	-

Total Cash as at 1 April 2014 based on exchange rates on 1 April 2014 was £23,833,732

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

Section 6 Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014

Joint administrators' time costs for the period 1 October 2013 to 31 March 2014

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	5.45	2,349	4.30	1,306	24.55	5,622	34.30	9,277
Administration and Planning	26.15	17,535	11.40	4,994	2.80	1,008	5.75	1,317	46.10	24,854
Creditors	-	-	1.20	517	13.35	4,806	0.12	27	14.67	5,350
Statutory and Compliance	0.60	524	14.45	6,260	10.00	3,595	7.30	1,672	32.35	12,051
Tax and VAT	1.90	1,398	10.20	5,468	0.25	90	6.05	884	18.40	7,840
Pensions	1.90	1,264	18.85	8,124	1.85	666	1.85	424	24.45	10,478
LBL Recharges	0.02	11	0.12	51	0.20	45	0.68	151	1.02	258
Grand Total	30.57	20,732	61.67	27,763	32.75	11,516	46.30	10,097	171.29	70,108

Current charge out rates	Business Recovery	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 maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
Grade	Services		
	Max £/hr	Max £/hr	
Partner	838	1075	* 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 give 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	680	990	
Senior manager	525	905	
Manager	444	545	
Senior Associate	370	410	
Associate/Support Staff	230	212	

Narrative of the Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014

Accounting and treasury - £ 9,277

- 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.

Administration and planning - £ 24,854

- Discussions regarding strategy for the administration;
- Preparation of six monthly internal case review for the Administrators;
- Reviewing financial information and intercompany relationships; and
- Discussion regarding exit strategy and relationship with subsidiary companies.

Creditors – £ 5,350

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

Statutory and other compliance – £12,051

- Preparation of the Administrators' tenth progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparing receipts and payments account;
- Preparing detailed remuneration summary;
- Managing the LBUKF database; and
- Liaising with Administrators on statutory issues.

Tax and VAT - £ 7,840

- Tax compliance;
- Dealing with tax and VAT queries;
- Preparation of VAT returns; and

Pensions - £ 10,478

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

LBL / LBIE recharges - £ 258

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