

LB Holdings Intermediate 2 Limited – In Administration

Joint Administrators' progress
report for the period 14 July 2018 to
13 January 2019

8 February 2019

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Reliance on data:

We caution creditors against using data in this report as a basis for estimating the value of their claims or their likely eventual entitlement to payment.

LB Holdings Intermediate 2 Limited, the Administrators, their firm, its members, partners, staff and advisers accept no liability to any party for any reliance placed upon this report.

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 20th progress report by the Joint Administrators (the “**Administrators**”) of LB Holdings Intermediate 2 Limited (“**LBHI2**” or the “**Company**”).

This report provides an update on the work the Administrators have undertaken since their appointment, with particular focus on the progress made in the six months to 13 January 2019 (the “reporting period”).

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) and continue to manage the Administration in accordance with the proposals approved by creditors.

Outcome for creditors

Unsubordinated creditors

Creditors may recall that on 15 June 2017, the Court granted the Administrators permission to make distributions to the Company's unsecured creditors. A first distribution of £941.0m was declared in September 2017, with a net distribution of £905.3m paid after holding back UK tax. This distribution represented full payment of the unsubordinated creditors' principal claims and part-payment of their post-administration statutory interest entitlements. The held back tax was subsequently distributed in the reporting period.

In the reporting period, a second distribution of £240.6m was paid to the unsubordinated creditors, being the balance of their entitlement to post-administration statutory interest. Further information is provided in Section 2.

The claims and post-administration statutory interest entitlements of the unsubordinated, unsecured creditors have now been paid in full.

Subordinated creditors

The Company has received claims from two creditors totalling c. £5.8bn which are, on their terms, subordinated to the claims of other unsecured creditors. These claims have only become entitled to receive distributions now that the claims of the unsubordinated, unsecured creditors have been in paid in full.

The priority ranking of those claims is presently uncertain. In spite of this uncertainty, the Administrators have been able to make an initial distribution of £44.7m to subordinated creditors. How this was achieved, and the current uncertainty concerning the extent to which further distributions may become available, is described in Section 2.

Future reports

The Administrators' next progress report to creditors will be sent in approximately six months.

Signed:



DA Howell
Joint Administrator
LB Holdings Intermediate 2 Limited

DA Howell, GE Bruce, ID Green, R Downs and EJ Macnamara were appointed as Joint Administrators of LB Holdings Intermediate 2 Limited to manage its affairs, business and property as agents without personal liability. The Joint Administrators 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/insolvencypractitioner-code-of-ethics>.

The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. Further details are available in the privacy statement on the www.pwc.co.uk website or by contacting the Joint Administrators.

Section 2 Joint Administrators' actions to date

Realisations

Lehman Brothers International (Europe)

Creditors may recall that in 2014 the Company entered into a joint venture (comprising of a number of special purpose vehicles collectively described as "Wentworth"), with companies managed by Elliot Management Corporation and King Street Capital Management L.P, such that, amongst other things, the Company's claims into the estate of Lehman Brothers International (Europe) ("LBIE") were transferred into Wentworth. The Company retains an interest in Wentworth.

Creditors will also recall that last year LBIE proposed to its creditors a scheme of arrangement ("the Scheme"), and that this became effective on 20 June 2018. The Scheme enabled LBIE to pay to Wentworth £1,274m, being the £1,242m principal amount of the subordinated claim held by Wentworth, as well as a proportion of its entitlement to post-administration statutory interest on that claim. LBIE additionally settled Wentworth's senior claim in full, including statutory interest. Under the Wentworth terms, in August 2018 the Company received £247.4m via Wentworth as its share of the distribution made by LBIE.

In December 2018 and January 2019 LBIE paid further distributions of £408m and £130m respectively to Wentworth. These were in part payment of Wentworth's entitlement to post-administration statutory interest that accrued in relation to its subordinated claim. This is expected to result in the Company receiving a further c. £175m from Wentworth.

The Administrators consider it likely that further distributions to Wentworth will be made by LBIE but there continue to be a number of issues to be resolved within the LBIE estate.

Claim against Lehman Brothers Limited ("LBL")

LBL has already settled in full the Company's principal claim.

LBL has also paid to the Company a further £58m, in part payment of the Company's entitlement to post-administration statutory interest that had accrued on its claim.

Further receipts from LBL are expected but because of the circular nature of the intercompany balances among several Lehman estates, the quantum is contingent on a number of issues, including the amount ultimately paid by the Company to Lehman Brothers Holdings Plc ("LBH") in respect of its subordinated claim. This is considered in more detail later in this report.

Claims against Lehman Brothers Holdings Inc. ("LBHI")

The Company's direct and guarantee claims against LBHI were admitted in 2011 in the amounts of \$2.7m and \$302m respectively. Creditors will recall that the Company has sold its direct claim against LBHI.

Cumulative dividends from LBHI, total \$106.6m.

There is currently some uncertainty as to the timing and extent to which LBHI might be able to reclaim distributions it has paid to the Company in relation to the guarantee it provided. Discussions are ongoing in this regard and the Administrators expect to be able to provide further information in future reports.

Distributions

Unsubordinated creditors

Creditors may recall that in September 2017, the Company entered into an agreement with certain other Lehman UK affiliates, known as the First Inter-Affiliate Settlement Deed ("First IASD"). The First IASD enabled the Company to declare a first interim distribution of £941.0m to its unsubordinated creditors in September 2017. The distribution settled in full the unsubordinated creditors' principal claims together with a proportion of their entitlement to post-administration statutory interest.

The Administrators had initially withheld £35.7m of the interest payment due to the possibility of withholding tax having to be paid to HM Revenue and Customs ("HMRC"). However, HMRC subsequently advised that these funds could be released. The withheld funds were distributed in July 2018.

As mentioned above, in August 2018 the Company received £247.4m in respect of its interest in Wentworth. In September 2018 the same Lehman UK Affiliates which had completed the First IASD then entered into another agreement, the Second Inter-Affiliate Settlement Deed ("Second IASD"), in order to facilitate further distributions to creditors. As a result of the Second IASD, and the receipt of the £247.4m from Wentworth, in September 2018 the Company paid a second distribution of £240.6m to the unsubordinated creditors, being the balance of their entitlement to post-administration statutory interest.

The claims of unsubordinated creditors, together with their entitlements to post-administration statutory interest, have now been settled in full. Subject to the costs of the Administration, any further recoveries will become available for subordinated creditors.

Subordinated creditors

In accordance with the Second IASD, the Company distributed £44.7m on account of LBH's subordinated claim. This payment was possible despite uncertainty about the ranking of the subordinated claims, because one of the subordinated creditors, Lehman Brothers Holdings Scottish LP3 ("SLP3"), agreed to waive any entitlement to a share in that distribution, whilst reserving any right it may have to receive a catch-up dividend at a later stage, to the extent that the Company has future sufficient funds.

1. Priority ranking

The Company has received claims from two creditors, SLP3 and LBH, totalling c. £5.8bn, which are subordinated to the claims of unsubordinated, unsecured creditors. Their priority ranking as between themselves is uncertain.

As the relative ranking of the claims is uncertain, the Administrators issued a court application for directions as to the priority in which the holders of the claims should receive any distributions ("the Priority Application"). Following an initial

directions hearing of the Priority Application on 23 and 24 July 2018 to address the management of the case, a second procedural hearing is listed to take place in a hearing window of 20-22 May 2019, with a Pre-Trial Review hearing expected to take place during the week of 14 October 2019. The full hearing is listed to begin during the week commencing 11 November 2019. As and when there are material developments to report, the Administrators will update creditors on their website at:

www.pwc.co.uk/services/business-recovery/administrations/non-lbie-companies/lbhi2-limited-in-administration.html.

2. Outcome

The future return to subordinated creditors is materially uncertain. Based on current information, we estimate the future return may be in the range £0.5bn to £1.0bn. The eventual outcome is subject to a number of factors, including:

- the eventual outcome of the LBIE estate,
- the return from LBL, which is affected by the circularity of claims among Lehman estates,
- the outcome of the Priority Application,
- resolution of LBHI's claim to have guarantee payments repaid, and
- the costs and expenses of the Administration.

We caution creditors against relying on this estimate and refer creditors to the 'Reliance on Data' wording on the Contents page of this report.

Investigations

Nothing has come to the Administrators' attention during the reporting period to suggest that they need to do any more work in line with their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice 2.

Tax

All corporation tax returns up to and including the year ended 13 January 2017 have been agreed by HMRC. HMRC have not raised any queries on corporation tax returns submitted to date. The tax return for the year ended 13 January 2018 will be submitted shortly.

The Finance (No. 2) Act 2017, which includes changes to corporation tax loss relief and interest deductibility, received Royal Assent on 16 November 2017. The changes regarding interest expense restriction and carry forward loss restriction will continue to be monitored. There will need to be a greater focus on accounting and reserve positions, to ensure maximum offset of losses and potential group relief to other UK Lehman affiliates.

LBHI2 has £55.1m of tax losses carried forward as at 13 January 2017. Further tax losses may be generated during the accounting period ended 13 January 2018 as a result of the First IASD, although the availability and use of those losses will need to be considered in light of the changes to corporation tax loss relief and interest deductibility.

The Administrators have met their obligations under the Senior Accounting Officer legislation and submitted the 2017 certificate and notification. They have complied with their obligations regarding the publication of the Lehman group Tax Strategy and adhered to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards and have considered their obligations under the new Corporate Criminal Offence rules which came into effect in September 2017.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court – Court Case 429 of 2009 / CR-2009-000052
<i>Full name:</i>	LB Holdings Intermediate 2 Limited
<i>Trading name:</i>	LB Holdings Intermediate 2 Limited
<i>Registered number:</i>	05957878
<i>Registered address:</i>	7 More London Riverside, London, SE1 2RT, United Kingdom
<i>Date of the Administration appointment:</i>	14 January 2009
<i>Current Administrators' names and addresses:</i>	DA Howell, GE Bruce, ID Green, R Downs and EJ Macnamara of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
<i>Appointer's name and address:</i>	The Directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration)
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) of schedule B1 to the Insolvency Act 1986, during the period for which the Administration is in force, any act required or authorized 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 five successive extensions to the Administration period to: 30 November 2010; 30 November 2011; 30 November 2013; 30 November 2015; and 30 November 2020.

Section 4 Financial information

Receipts and payments account

An account of the receipts and payments for the six months to 13 January 2019, together with a cumulative total since the beginning of the Administration, is provided in Section 5.

Creditors will recall that LBHI2 contributes towards the expenses of Wentworth, including costs of the Waterfall appeals and other associated litigation. Legal costs are regularly incurred and analysed to distinguish between those relating to the Waterfall litigation and those exclusive to the Administration. It was agreed under the Wentworth terms that LBHI2 should be reimbursed for all legal costs in respect of the Waterfall litigation from 30 September 2013 onwards. LBHI2 has been reimbursed a total of £4.6m in relation to such costs, all prior to the reporting period. Now that the Waterfall litigation has concluded, LBHI2 is not expected to have to pay further costs to or on behalf of Wentworth. In addition to LBHI2's contribution to Wentworth's costs, LBHI2 made loans to Wentworth to cover operating and legal costs, totalling £9.7m. During the period, these loans were repaid in full, including interest.

Administrators' remuneration and expenses

Statement of Insolvency Practice number 9 ("SIP9"), issued by the Institute of Chartered Accountants in England and Wales, was revised with effect from 1 December 2015 and applies to all open insolvency cases. SIP9 details the disclosure standards required by insolvency office holders in respect of fees, expenses and payments to associates.

As previously reported, the Administrators acknowledge that the provisions of the revised SIP9 apply to this insolvency, although given the uncertainty surrounding the eventual resolution and outcome of the Priority Application, it remains difficult to provide a meaningful estimate of our future time costs. Whilst an estimate of future time costs is provided in Section 8, the Administrators caution that actual future costs will be considerably impacted by the progress of, among other matters, the Priority Application litigation. The estimate we have provided assumes that the litigation will result in the Administration lasting for a further two years.

That timeframe could be shortened if the litigation is settled sooner, or extended if Court decisions are appealed. In either scenario the eventual future time costs may be expected to be materially different from those provided in the estimate.

In March 2009, approval was obtained from LBHI2'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 remuneration from time to time.

In accordance with SIP9, the following information has been provided in Section 7:

(i) an analysis of the Administrators' time costs for the period 1 June 2018 to 30 November 2018, including the cumulative total time costs from the date of the Administrators' appointment to 30 November 2018; and

(ii) a summary of the Administrators' time costs for the period, including the key categories of work, further information on the work undertaken, a description of why the work was necessary, how the work benefits creditors and whether it was required by statute.

In line with the creditors' approval, as at 13 January 2019 the Administrators have drawn remuneration of £11.8m plus VAT in respect of time costs incurred to 31 October 2018.

Administrators' disbursements

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

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs, statutory advertising and insolvency office holders' insurance. The Administrators are not required to seek creditor approval to draw Category 1 disbursements. Category 1 disbursements incurred during the reporting period total £33k plus VAT. These disbursements have not yet been drawn.

Category 2 disbursements for shared or allocated services provided by our own firm, including room hire, document storage, photocopying and communication facilities, must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves the Administrators' fees.

As a result of LBHI2's involvement in various litigation, notably the now-completed Waterfall III proceedings and the Priority Application, it has been necessary to engage the services of our specialist Forensics team. The team utilises IT software to review the Lehman archives in order to obtain and supply evidence for witness statements. These exercises were (and continue to be) conducted by a combination of PwC and Dentons LLP resources and are carried out in accordance with standard e-disclosure processes. PwC uses a third party to provide the platform in which to access the Lehman archives and transfer the data to PwC's e-review sharing platform. PwC charges a monthly licence and hosting fee where this platform is used on an assignment.

To date, these charges total £157k plus VAT and as Category 2 disbursements, the Administrators will be seeking creditor approval to draw them in due course.

Creditors' rights

Creditors have the right to ask for information and challenge an administrator's fees if they believe that they are too high. You can find an explanatory note online at:

<http://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/a-creditors-guide-to-administrators-fees-010407.ashx?la=en>

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

Section 5 Receipts and payments account

	Notes	As at 13-Jan-19	GBP Movements in Period	As at 13-Jul-18	As at 13-Jan-19	USD Movements in Period	As at 13-Jul-18
Receipts							
Dividends received	1	550,331,546	293,163,504	257,168,042	106,560,193		106,560,193
Sale of subordinated debt and senior claims in LBIE		649,992,000	-	649,992,000	-		-
Sale of 4A claim in LBHI		-	-	-	99,272		99,272
Reimbursement of contribution to Joint Venture Waterfall costs	2	4,616,430	-	4,616,430	-		-
Reimbursement of Joint Venture travel costs		60,914	-	60,914	-		-
Reimbursement of loan and advances to Joint Venture	3	9,666,666	9,666,666	-	-		-
Sale of tax losses		9,032,513	-	9,032,513	-		-
Repayment of loan to LBHI		82,750,000	-	82,750,000	-		-
Recovery of investments in subsidiaries		37,777	-	37,777	-		-
Gross interest received	4	13,480,834	2,704,305	10,776,529	2,682	16	2,666
Total receipts		1,319,968,680	305,534,475	1,014,434,205	106,662,147	16	106,662,131
Payments							
Net Tax function costs		100,907	-	100,907	-	-	-
Legal fees and disbursements		11,534,803	1,329,059	10,205,744	-	-	-
Legal fees and disbursements relating to Waterfall applications	5	5,872,480	-	5,872,480	-	-	-
Recharge of pension related legal costs to LB UK Financing Ltd		56,485	-	56,485	-	-	-
Loans and advances to Joint Venture	3	9,666,666	-	9,666,666	-	-	-
Loan to LBHI		82,600,000	-	82,600,000	-	-	-
Investments in subsidiaries		170,400	50,400	120,000	-	-	-
Gross wages and salaries		61,890	2,928	58,962	-	-	-
Statutory costs		20,583	11,141	9,442	-	-	-
IT Costs		18,965	13,224	5,741	-	-	-
Serviced Office costs		85	-	85	-	-	-
Bank charges		-	-	-	937	-	937
Joint Administrators' remuneration		11,751,028	1,280,702	10,470,326	-	-	-
Joint Administrators' category 1 disbursements		89,330	-	89,330	-	-	-
Irrecoverable VAT	6	5,770,334	526,824	5,243,510	-	-	-
Total payments		127,713,956	3,214,278	124,499,678	937	-	937
Intracompany transfers							
Receipts		69,752,816	-	69,752,816	-	-	-
Payments		-	-	-	106,659,357	-	106,659,357
Total receipts less total payments		1,262,007,540	302,320,197	959,687,343	1,853	16	1,837
Distributions							
1st interim distribution to unsecured creditors - 100p in the £ paid 6 Sep 2017	7	698,529,813	-	698,529,813	-	-	-
1st interim distribution to unsecured creditors - share of statutory interest (£206.7m) paid - 6 Sep 2017; £35.7m in July 2018	7	242,438,229	35,742,005	206,696,224	-	-	-
2nd interim distribution to unsecured creditors - the remaining share of statutory interest paid on 12 Sep 2018	8	240,633,945	240,633,945	-	-	-	-
2nd interim distribution to unsecured creditors - a portion of subordinated debt paid on 12 Sep 2018	8	44,661,311	44,661,311	-	-	-	-
Total distributions		1,226,263,298	321,037,261	905,226,037	-	-	-
Total cash receipts less total payments less distributions		35,744,241	(18,717,064)	54,461,305	1,853	16	1,837
Cash balances							
HSBC	9	1,945,927	(1,671,423)	3,617,350	1,853	16	1,837
Money markets	10	33,798,314	(17,045,641)	50,843,955	-	-	-
Total cash	11	35,744,241	(18,717,064)	54,461,305	1,853	16	1,837
Notes:							

All of the Company's assets are uncharged, there being no secured creditors.

The estimated to realise values of assets shown in the directors' statement of affairs do not represent a meaningful comparison with the current position and are therefore excluded.

"Joint Venture" refers to Wentworth.

(1) Dividends received in the period were from Lehman Brothers Limited - in administration (£58m) and Wentworth (£235.1m).

(2) In the interests of maximising recoveries from the Joint Venture, LBHI2 makes a contribution towards its running costs and is reimbursed for Waterfall costs borne on behalf of the other Joint Venture partners.

(3) LBHI2 made a contribution towards the Joint Venture costs by way of loans and advances. The total advanced (£9.7m) has now been repaid in full.

(4) A significant proportion (i.e. £2.6m) of interest earned in the period relates to interest accrued on loans advanced by the Joint Venture. See note 3 above for details of loans advanced.

(5) Legal fees of £3k have been reclassified from "Loans and advances to Joint Venture" to "Legal fees and disbursements relating to Waterfall applications" to provide an appropriate classification of Joint Venture costs.

(6) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.

(7) First interim distribution of £941.0m declared with £905.3m paid to unsecured creditors on 6 September 2017. £35.7m held back for UK tax has now been released and paid in July 2018.

(8) Second interim distribution of £240.6m declared and paid to unsecured creditors, being the balance of the statutory interest entitlement. A separate payment of £44.7m was made in respect of subordinated debt.

(9) The Company's GBP and USD accounts are both interest bearing.

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

(11) Total cash at 13 January 2019 based on exchange rates at 11 January 2019 was £35,746,095.

Section 6 Statement of Expenses

The table below provides details of the Administrators' expenses. Expenses are defined as amounts payable by the Administrators from the estate. They include the Administrators' fees but exclude distributions to creditors and the Wentworth loans. The table also excludes any potential tax liabilities other than VAT, that may be payable as an Administration expense. Tax amounts becoming due will depend on the position at the end of the accounting period and the impact of any tax reform.

The table should be read in conjunction with the receipts and payments account in Section 5, which shows expenses actually paid during the period but excludes those incurred which have not yet been paid.

It remains difficult to provide a meaningful estimate of future expenses. Whilst the table includes an estimate, the Administrators caution that actual future expenses will be considerably impacted by the progress of, among other matters, the Priority Application litigation. The estimate we have provided assumes that the litigation will result in the Administration lasting for a further two years. That timeframe could be shortened if the litigation is settled sooner, or extended if Court decisions are appealed. In either scenario the eventual future expenses may be expected to be materially different from those provided in the estimate.

	Brought forward balances	Paid in the period	Cumulative	Incurred - not paid	Estimated future	Anticipated total costs
	£k	£k	£k	£k	£k	£k
Legal fees and disbursements	16,076	1,329	17,405	72	13,600	31,077
Pension related legal costs	56	-	56	-	-	56
Employee wages and associated costs	65	16	81	-	560	641
Administrators' remuneration and disbursements (note 1)	10,560	1,280	11,840	522	6,500	18,862
Statutory costs	9	11	20	-	50	70
Irrecoverable VAT	5,243	527	5,770	119	4,030	9,919
Total	32,009	3,163	35,172	713	24,740	60,625

Note 1 – Administrators' remuneration and disbursements brought forward balance adjusted from previous report following account reconciliation.

Section 7 Joint Administrators' time costs for the period 1 June to 30 November 2018

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.30	244	47.70	23,663	130.70	44,709	16.65	3,967	195.35	72,583
Strategy and Planning	771.95	662,320	857.30	454,291	45.10	13,225	241.20	52,224	1,915.55	1,182,060
Creditors	-	-	56.00	27,480	35.35	11,368	0.95	233	92.30	39,081
Statutory and Other Compliance	3.40	3,014	51.80	26,546	72.70	26,502	0.10	25	128.00	56,087
Tax and VAT	84.20	90,837	134.35	103,099	31.55	12,658	31.50	7,129	281.60	213,723
Total for six months ended 30 November 2018	859.85	756,415	1,147.15	635,079	315.40	108,462	290.40	63,578	2,612.80	1,563,534
Average hourly rate for the six month period to 30 November 2018										598
Cumulative total to 30 November 2018										12,055,804

Charge out rates	Business Recovery	Specialist
	Max £/hr	Max £/hr
Grade	From 1 July 2017	From 1 July 2017
Partner	935	1,312
Director	820	1,152
Senior Manager	548	969
Manager	462	707
Senior Associate	386	525
Associate/Support Staff	245	244

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 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 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.

Charge-out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge-out rates was effective from 1 July 2015 to 30 June 2017. An increase of 4% in charge-out rates is effective from 1 July 2017, and in line with other Group affiliates controlled by PricewaterhouseCoopers LLP's office holders, this approach is also used for LBH12.

Notes:

- (1) The cumulative total refers to the time costs incurred to 30 November 2018, of which £11.8m has been drawn to date.
- (2) Time costs are net of VAT.

Narrative of the Joint Administrators' time costs for the period 1 June to 30 November 2018

Accounting and Treasury - £72,583

This is an essential function for the management of funds held by the Administrators on behalf of the Company. The Administrators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments for the benefit of the Company's creditors.

Recoveries from debtors and investments in the review period total £293.2m. Activities include:

- Reconciling bank accounts;
- Provision of information for the purposes of statutory reporting;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts;
- Analysing counterparties' risk and deposit rates;
- Actively managing investments held in various institutions in order to mitigate risk;
- Review of cash investment strategy and documentation agreement for bond portfolio;
- Executing foreign exchange transactions;
- Liaising with the case management team to check liquidity requirements;
- Monthly reporting of outstanding deposits and month end bank balances;
- Planning for and delivering the second "washing-machine" distribution to LBHI2's creditors; and
- Quarterly reporting of performance and activity commentary.

Strategy and Planning - £1,182,060

The inherent complexities of the LBHI2 estate mean that the Administrators and their staff continue to invest a substantial proportion of their time in the planning and delivery of their strategy for the progression of the Administration.

The Administrators consider that their actions support their 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) and continue to explore strategies leading to conclusion of the Administration. The Administrators anticipate that the Company will be dissolved after conclusion of the Administration. Activities include:

Wentworth

- Ongoing project management for calculation and distribution of second interim dividend including development of "dry run" models;
- Regular meetings and correspondence with tax and legal advisors and the Wentworth joint venture partners, in respect of Wentworth;
- Preparation for and attendance at board to represent LBHI2 as corporate director of a number of companies in the Wentworth structure;
- Dealing with administrative issues relating to Wentworth;
- Further update meetings with LBIE and discussing strategy with the Wentworth joint venture partners;
- Continued development of financial models to estimate the range of outcomes for the estate following the implementation of LBIE's scheme of arrangement;
- Planning for and delivering the Second IASD distribution to LBHI2's creditors;
- Reviewing and discussing strategy for Wentworth with the Wentworth joint venture Partners and LBHI;
- Reviewing financial information from Wentworth;
- Administration of repayment of Large Partner Loans from Wentworth; and

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- Liaison with the nominated director for the Luxembourg Special Purpose Vehicles and their appointed counsel.

Subordinated debt proceedings

- Ongoing development of strategy for subordinated debt priority application;
- Liaising with lawyers and Counsel;
- Engagement with other interested parties e.g. LBH and LBL;
- Modelling of potential outcome scenarios;
- Input into drafting and review of Court application and witness statements; and
- Preparation for and attendance at the Case Management Hearing.

General matters

- Consideration of strategy to maximise the outcome for LBHI2's creditors and updating strategy documents including:
 - Discussions with stakeholders in regards to this strategy;
 - Extensive participation in discussions with other Lehman affiliates to accelerate distributions to creditors, culminating in the Second IASD;
 - Review and maintenance of financial information, including updating the estimated outcome statement;
 - Liaising with tax specialists in respect of provisions for the estimated outcome statement;
 - Planning and delivering the strategy for the second interim distribution to LBHI2's creditors; and
 - Regular case team meetings to manage case progression.

Creditors - £39,081

The following tasks were undertaken in accordance with the Administrators' statutory duties and to distribute the Company's assets to its creditors.

Activities include:

- Preparing and circulating the Notice of Intended Dividend to unsubordinated creditors;
- Reviewing and analysing the level of claims admitted ahead of the second interim distribution; and
- Calculating and paying the second interim distribution and dealing with associated legal notices.

Statutory and Other Compliance - £56,087

The following tasks were undertaken in accordance with the Administrators' statutory obligations and/or internal compliance:

- Preparing and circulating the Administrators' 19th progress report to creditors, including the receipts and payments account;
- Preparing and reviewing detailed time cost summaries in support of the Administrators' remuneration;
- Dealing with statutory filings at Companies House and the Court;
- Preparing the Administrators' internal six monthly reviews in accordance with professional requirements;
- Managing and updating communications on the Company's website; and
- Maintaining and managing case files, records and the Company's database and dealing with other ad-hoc compliance and statutory tasks.

Tax and VAT - £213,723

The following tasks were undertaken for tax and VAT compliance purposes and in some circumstances for the benefit of creditors:

- Ongoing preparation of corporation tax computation for the year ended 13 January 2018;
- Ongoing consideration of withholding tax in relation to distributions, including liaison with HMRC;
- Input with respect to potential withholding tax on interest payments made to overseas creditors;
- Dealing with tax and VAT queries;
- Dealing with Competent Authority request;
- Strategy planning for anticipated realisations from Wentworth; and
- Preparing VAT returns as required by HMRC despite the Company's VAT status.

Section 8 Estimated future costs and other matters

The Administrators continue to actively progress all matters pertaining to the estate.

As previously reported, the Administrators acknowledge that the provisions of the revised SIP9 apply to this insolvency, although given the uncertainty surrounding the eventual resolution and outcome of the Priority Application, it remains difficult to provide a meaningful estimate of our future time costs. Whilst an estimate of future time costs is provided in the table below, the Administrators caution that actual future time costs will be considerably impacted by the progress of, among other matters, the Priority Application litigation. The estimate we have provided assumes that the litigation will result in the Administration lasting for a further two years. That timeframe could be shortened if the litigation is settled sooner, or extended if Court decisions are appealed. In either scenario the eventual future time costs may be expected to be materially different from those provided in the estimate.

	£k
Accounting and Treasury	350
Strategy and Planning	3,800
Creditors	1,000
Statutory and Other Compliance	250
Tax and VAT	1,100
Total	<u>6,500</u>

The above figures assume that:

- Time costs relating to care and maintenance of the case will be incurred at a similar rate to that incurred in the reporting period; and
- There will be further distributions to the Company's creditors.

The Administrators will continue to work towards the best possible outcome for creditors and comply with their statutory obligations as Administrators and as officers for tax.

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 LBHI2 by employees retained by LBIE and LB SF Warehouse Limited for their prior and ongoing knowledge of the Company's affairs. Included in these services are the provision of certain tax and VAT services, claims review services and key staff resource. The benefit to the Company's creditors is through cost savings. This is because the Administrators consider it more efficient that this work is carried out by subcontractors and by the centralisation of services. The costs of such services are recharged to LBHI2 on a time costs basis and are invoiced directly to the estate.

Legal firms

The Administrators have instructed the following professionals to assist with various legal matters arising in the Administration.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services	Linklaters LLP	Industry knowledge	Time costs
Legal services	Dentons UK and Middle East LLP	Industry knowledge	Time costs

The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists. All professional firms instructed by the Administrators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment. The Administrators are satisfied that the level of legal costs are appropriate.