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# ***Lehman Brothers Limited – In Administration***

Joint Administrators' progress  
report for the period 15 March 2016  
to 14 September 2016

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13 October 2016

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

This is the 16<sup>th</sup> progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Limited ("LBL" or the "Company") under Rule 2.47(3)(a) of the Insolvency Rules 1986 ("IR86").

This report provides an update on the work that the Administrators have undertaken, with particular focus on the progress between 15 March and 14 September 2016 (the "reporting period").

## ***Objectives of the Administration***

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

The specific aims of this Administration have included:

- Realise all assets of LBL, where value may exist;
- Provide ongoing employee and infrastructure support to the other Group companies that are in Administration in exchange for appropriate reimbursement;
- Mitigate, so far as possible, any further liabilities against LBL by the transfer or termination of contracts; and
- Adjudicate the claims of creditors and pay distributions to creditors with admitted claims.

## ***Creditors' Committee***

The Administrators regularly meet with the Creditors' Committee (the "Committee") to explain in detail how the key aspects of the Administration are being dealt with and to consult with the Committee on critical issues.

To date, the Administrators have held 23 meetings with the Committee. The next meeting is due to take place on 21 October 2016.

During the reporting period, LB745 LLC's ("LB 745") membership of the Committee was automatically terminated on it having assigned its claim against LBL. LB 745 was replaced by the assignee, Lehman Brothers UK Holdings (Delaware) Inc., with the agreement of the Administrators and the remaining two members of the Committee.

## ***Outcome for unsecured creditors***

Creditors will recall that the Administrators have paid a dividend of 100p in the £ to former employees on admitted preferential unsecured claims (comprising claims for unpaid wages and holiday pay). The Administrators have also declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors.

Creditors who have not yet submitted a claim are asked to do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/services/business-recovery/administrations/lehman/lbl-in-administration.html>

The timing and quantum of any future dividend remain uncertain and are subject to complex, ongoing litigation termed the "Waterfall" proceedings. Further information regarding the "Waterfall" proceedings is provided in Section 2.2.

## ***Extension of the Administration***

The Administrators' term of office is due to expire on 30 November 2016. As outlined in this report, there are a number of ongoing matters, which are critical to the outcome of the Administration, including:

- Completing intercompany debtor realisations;
- Concluding the Waterfall proceedings;
- Finalising the proceedings in relation to 25 Bank Street, and subject to the outcome of those proceedings, declaring further distributions to LBL's unsecured creditors.

An application has therefore been made to the Court to extend the Administration by an additional four years until 30 November 2020. The application is listed to be heard by the Court on 28 October 2016.

The extension does not prevent the Administrators from bringing the Administration to an end at such earlier time as the objectives of the Administration have been achieved.

## ***Change of Administrators***

As previously reported, on 15 March 2016, the Court granted the Administrators' application for an order that Zelf Hussain be appointed Administrator and that Dan Schwarzmann, Anthony Lomas, Steven

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Pearson and Guy Parr (the “Resigning Administrators”) be permitted to resign.

The changes in Administrator took effect on 1 June 2016, following the filing of notice with Companies’ House.

Pursuant to the Court order, the Resigning Administrators shall be discharged from liability in respect of any action of theirs 42 days after the date of this report, except in respect of claims notified to the current Administrators before that date.

Copies of the Court order and judgment are available on the LBL website.

### ***Change in registered office***

The Company’s registered office was changed to 7 More London Riverside, London, SE1 2RT with effect from 17 August 2016.

### ***Future reports***

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

Signed:



MJA Jervis  
Joint Administrator  
Lehman Brothers Limited

*MJA Jervis and Z Hussain were appointed as Joint Administrators of Lehman Brothers Limited to manage its affairs, business and property as agents without personal liability. MJA Jervis and Z Hussain 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 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.*

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## ***Section 2 Joint Administrators' actions to date***

Creditors will be aware that before the Administration, LBL held most of the UK service and employee contracts on behalf of the Lehman Brothers Group of companies (the "Group"), and provided all HR, IT, property, accounting and other services for the Group in the UK and Europe.

Following the Administrators' appointment, LBL continued to provide services to the other UK based Lehman Brothers Companies that are in Administration (the "Lehman Administration Companies"). On 31 May 2013, the Administrators agreed with Lehman Brothers International (Europe) ("LBIE") and other Lehman Administration Companies to transfer to LBIE the then continuing services and the 400 retained employees.

Throughout the Administration the Administrators have utilised specialist teams from their firm PricewaterhouseCoopers LLP ("PwC"), who have worked with retained LBL and latterly LBIE employees to ensure that LBL's operations are properly coordinated and the objectives of the Administration are met.

As at the date of the Administration, LBL's primary assets included inter-company receivables, tax refunds, IT assets and fixtures & fittings. The management and realisation of these assets have been undertaken by separate workstream teams (e.g. the Intercompany team) to maximise the outcome for LBL's creditors as a whole. In the period, teams have been assembled as necessary to support the Waterfall litigation process.

Key progress from 15 March 2016 to 14 September 2016 includes:

- Realisation of a further \$112m in relation to LBL's claim against Lehman Brothers Luxembourg Investment S.A.R.L ("LBLIS");
- Ongoing participation in the "Waterfall" proceedings, progress on which is explained in more detail below and upon the outcome of which the ultimate return to creditors is materially dependent;
- Continued adjudication of the claims of unsecured creditors, including in particular the litigation in relation to the claim made by the landlord of LBL's leasehold interest in the Group's former premises at 25 Bank Street, Canary Wharf ("25 Bank Street");

- Payment of further catch-up dividends to unsecured non-preferential and preferential creditors;
- Corresponding with LBIE and Lehman Brothers Europe Limited ("LBEL"), in respect of inter-company balances; and
- Continued pursuit and recovery of amounts due to LBL from other Group companies.

### ***Receipts and payments account***

The receipts and payments account at Section 7 shows cash held increasing by £73.7m to £366.6m in the reporting period. Key movements include:

- Intercompany debtor recoveries of c. £82m; and
- VAT of c. £5.4m recovered in LBL's capacity as the representative member of the VAT group and
- Accounting to other Lehman Administration Companies for VAT refunds of c. £12.2m. A further £2.9m will be distributed shortly.

As advised earlier in the Administration, all of the Company's assets are uncharged, there being no secured creditors.

The receipts and payments account does not show estimated to realise values from the directors' statement of affairs as this would not provide a meaningful comparison with actual asset recoveries. Given the nature of the Company's assets and ongoing realisations, the Administrators are not in a position to provide an estimate of the final outcome for creditors.

### ***Statement of expenses***

A statement of expenses incurred in the reporting period and an estimate of future expenses is set out at Section 8.

### ***Investigations and actions***

No matters have come to the Administrators' attention during the period under review 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 No.2.

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## 2.1 Intercompany balances

### Overview

As detailed in previous reports, the global nature of the Lehman business, with highly integrated trading and non-trading relationships across the Group, led to a complex series of intercompany positions at the date of Administration. These included 289 debtor and creditor balances between LBL and the rest of the Group, representing at book value £1.2bn of receivables and £0.7bn of payables. Of these, c. £1.1bn (>90%) of receivables relate to five relationships. In addition, LBL held guarantees from Lehman Brothers Holdings Inc (“LBHI”) in respect of claims against some other Group companies.

As a service company, LBL recharged to other group companies the costs it incurred in the provision of services. In excess of 95% of such costs were charged to either LBIE or LBEL.

### Progress

The Intercompany team has continued to make progress in the agreement and recovery of a number of significant receivable balances such that these amounts can ultimately be made available to LBL’s unsecured creditors, including seeking to agree its intercompany balances with LBIE and LBEL.

The Administrators are still seeking to finalise, where possible, adjustments to the balance sheet. Discussions with the Administrators of LBIE and LBEL, in respect of the inter-company balances are ongoing.

As described in Section 2.2 below, the complex “Waterfall” proceedings are ongoing so the outcome is currently uncertain. As a consequence, it is not possible at this stage to indicate what LBL will recover from its claim against LBIE, or whether ultimately LBIE will be found to be a debtor or a creditor of LBL.

For similar reasons, the final balance with LBEL is also uncertain.

To date, LBEL has paid dividends totalling 100p in the £ to its unsecured creditors, whose claims have been admitted.

LBEL may pay a surplus to its shareholder, Lehman Brothers Holdings Plc (“LBH Plc”). The amount of surplus (if any) depends on a number of factors including the inter-company balance with LBL.

LBL is the largest creditor of LBH Plc by value, with an admitted claim of £709m.

### LBLIS

- LBL has continued to progress the position with LBLIS in relation to LBL’s claim of \$225m. \$112m was repaid in the reporting period, resulting in overall recoveries of \$192m.
- Shortly after the end of the reporting period, LBL received a further \$39m from LBLIS in settlement of the principal debt and part of the accrued interest. The balance of interest due is expected by the end of 2016.

Other material developments include:

- As creditors are aware, a Plan of Reorganisation of LBHI and the other Affiliates in US Chapter 11 proceedings became effective on 6 March 2012. To date, LBL has received distributions totalling £76.6m (\$113m). Distributions of \$5m were received in the reporting period. The total recovery from these claims remains uncertain, but further distributions are anticipated on a six monthly basis;
- In December 2015, LBL reached agreement with Lehman Brothers Bankhaus (LBB) and a claim of €1.58m was admitted into the LBB estate. To date distributions of approximately €1.3m have been received by LBL. After the end of the reporting period, further distributions have been received and the admitted claim has been paid in full, with interest; and
- A number of smaller recoveries have been received from group companies in a variety of jurisdictions, and further recoveries are anticipated.

The Intercompany team continues to proactively progress approximately 30 other Group balances where there remains a reasonable prospect of future realisations.



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## 2.2 Waterfall proceedings

The “Waterfall” proceedings address LBL’s potential liability as the registered holder of one share in LBIE, an unlimited company. The outcome of the “Waterfall” proceedings will to a large extent determine the total amount of claims admitted in LBL’s estate, and therefore the dividend that might ultimately be paid to LBL’s creditors.

### **“Waterfall I” application**

As previously reported, the Administrators applied to the High Court jointly with the Administrators of LBIE and Lehman Brothers Intermediate Holdings 2 Ltd (“LBHI2”, the majority shareholder of LBIE) for directions in relation to the potential liability of LBL and LBHI2 in respect of shares held in LBIE, an unlimited company, and in relation to subordinated debt owed by LBIE to LBHI2 (the “Waterfall I” application).

In March 2014, the Waterfall I judgment was handed down.

The judgment addressed a number of questions. In particular, it was held that when LBIE has gone into Liquidation, but not before, the shareholders of LBIE may be subject to calls to provide funds to enable LBIE to pay additional sums, including statutory interest, “non provable debts” such as foreign exchange losses, and subordinated debts. LBIE remains in Administration and has not gone into Liquidation. However, it was further decided that even though it is not in Liquidation, LBIE may make a contingent claim against its shareholders in respect of amounts that it would (if in Liquidation) call on its shareholders to pay.

The Administrators of LBL, LBIE and LBHI2, and LBHI, were given leave to appeal some parts of the judgment. The appeal was heard over five days at the end of March 2015 and judgment was handed down on 14 May 2015. The appeal judgment upheld key elements of the judgment at first instance. The Supreme Court subsequently granted LBL, LBHI2 and LBIE leave to appeal and the hearing of that appeal remains listed for October 2016.

As previously reported, LBIE has submitted a claim for £10.4bn in the estate of LBL. This is formed of three components as follows:

1. A pension debt of £119m (in respect of the claim made by the Trustees of the Lehman Brothers Pension Fund under s.75 of the Pensions Act 2004, purportedly assigned to LBIE);
2. An inter-company claim of £254m relating to the net balance asserted to arise from recharges

of costs by LBL (see Section 2.1 of this report); and

3. A contingent contribution claim of £10bn, for the estimated deficiency in LBIE’s estate including statutory interest, “non provable debts” such as foreign exchange losses, and subordinated debts.

No elements of LBIE’s claim have been admitted by LBL.

LBL acted at all times as a service company, and recharged all costs incurred in the provision of services. Accordingly, LBL has lodged proofs of debt in LBIE, LBEL and LBHI2 including recharges of LBIE’s contribution claim on the basis that the share in LBIE was registered in LBL’s name as a service to one or more of them and the contribution claim (if a liability of LBL) is a cost of providing services and therefore subject to recharge.

### **“Waterfall II” application**

As previously reported, the Administrators of LBIE have made another application to the Court (the “Waterfall II” application) for directions in relation to a number of questions relating principally to the nature and quantum of LBIE’s liabilities.

Given the scope of the Waterfall II Application, the issues have been separated into three parts and a separate procedural timetable and trial for each part has been agreed. Parts A and B were heard in February and May 2015. The judgments for Parts A and B were handed down on 31 July 2015. The parties have been granted leave to appeal and the appeal has been listed for hearing in April 2017. Part C was heard in November 2015 and judgment in Part C and some supplemental issues was handed down after the end of the reporting period. It is as yet not known whether any part of the Part C and supplemental issues judgments will be appealed.

LBL is not party to the Waterfall II application, but its outcome may materially impact the potential liabilities of LBIE, and consequently may also impact the potential liability of LBL as the registered holder of a share in LBIE. The Administrators therefore continue to closely monitor this application and have reserved the right to apply to the Court to be joined, should it appear necessary to do so to ensure that all credible arguments that would operate so as to reduce any contribution claim by LBIE are put to the Court.

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### ***“Waterfall III” application***

The Administrators of LBL have continued to conduct detailed investigations into the basis on which LBL held one share in LBIE, any consequential impact on the liability of LBL for any deficiency in LBIE, and the treatment of any such liability in LBL by reason of LBL’s role as a service company recharging its costs, the inter-relationship between LBL and LBHI2 (LBIE’s majority shareholder), and otherwise.

In its initial phase, the investigation process provided for the review of approximately 280,000 hard copy and electronic documents to determine their potential relevance to the key issues not addressed in the Waterfall I proceedings.

Notwithstanding that LBIE delayed LBL’s access to the Lehman archives for more than 8 months, and LBL’s confirmation to LBIE of its intention to narrow the relevant issues by concluding its initial review prior to a joint application for directions being made to the Court, LBIE declined to wait and issued an application to the Court on 25 April 2016 (the “Waterfall III” application).

A case management hearing was held on 24 June with LBIE seeking a trial commencing in November 2016. This was resisted by LBL and a hearing was listed by the Court for February 2017.

The timing of the application has placed significant time pressure on LBL to complete and document its investigations, including searching and reviewing a very large volume of document and interviews with key individuals. LBL’s position paper was filed by the Administrators in the Court on 30 September 2016.

Waterfall III will continue to require a considerable amount of time to be spent by the Administrators and their staff in the run up to the court hearing.



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## **2.3 Creditor claims and dividend prospects**

### ***Preferential creditors***

As creditors are aware from previous reports, a dividend of 100p in the £ has been paid to preferential creditors whose claims have been admitted. Approximately 95% of expected claims by value have now been agreed and paid. The Administrators continue to deal with new preferential claims as and when they are submitted.

### ***Unsecured creditors***

#### ***Claims agreement***

Since the previous report, the Administrators have continued to adjudicate claims. In the reporting period, claims totalling £0.96m were adjudicated, of which £0.85m were admitted and £0.11m were rejected.

Any creditor who has yet to submit their claim should do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/services/business-recovery/administrations/lehman/lbl-in-administration.html>

Claims and supporting documentation can be submitted via email to [lbl.enquiries@uk.pwc.com](mailto:lbl.enquiries@uk.pwc.com)

### ***Catch up dividends***

It is the Administrators' policy to make periodic catch up dividend payments to creditors when further claims are agreed. During the reporting period, further catch-up dividends of £96k have been paid. The level of newly adjudicated claims will be kept under review and further catch up dividends paid at such a time as it is economically viable to do so.

### ***25 Bank Street claim***

As explained in the previous progress report, the landlord of 25 Bank Street has appealed the Administrators' rejection of its claim.

The claim is a substantial and complex matter, and is listed to be heard from February 2017 for 10 weeks. For legal and commercial reasons, it is not possible to provide any further detail at this stage.

### ***Claim reserves and dividend prospects***

The Administrators continue to reserve for claims totalling £11.8bn, including inter-company claims from LBIE, LBHI2 and LBEL. The quantum and timing of future dividends remains uncertain and is

materially dependent upon the issues discussed in Section 2.2 and this section.

### ***Issues and priorities***

The Administrators' priorities in relation to creditor claims not affected by the Waterfall litigation for the next six months are to:

- Prepare for the Court hearing in respect of the 25 Bank Street claim.
- Review, adjudicate and pay preferential claims of former employees as these are received; and
- Continue to review and adjudicate outstanding unsecured claims, including dealing with any new claims received, and paying catch up dividends on agreed claims.

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## 2.4 Tax planning and compliance

### Overview

Prior to entering Administration, LBL coordinated the group corporate tax, VAT and PAYE affairs. Since Administration, this role has diminished but LBL continues to act as representative member of the Lehman VAT group and coordinates the Group loss allocation for corporation tax purposes.

The ongoing key objectives for the tax team include:

- Compliance - Ensuring corporation tax compliance, VAT compliance and statutory filing obligations are met.
- Planning - Effective projection and planning to minimise tax leakage from the UK Group and maximise VAT recoveries.
- PAYE and other employment taxes - Finalise agreement of amounts due to HMRC in respect of pre-Administration employment related taxes and settle open EBT schemes.
- HMRC relationship - Maintaining a good working relationship with HMRC to facilitate the pragmatic and timely resolution of issues.

### Progress

Specific progress in the reporting period includes:

#### Corporation Tax

- Drafting of the 2015 corporation tax return.
- Submission of the final 2014 group relief agreement.
- Compliance with the Administrators' responsibilities under Senior Accounting Officer ("SAO") legislation and submission of the FY14 certificate and notification.
- Adherence to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards ("FATCA").

#### VAT

- All group VAT returns have been submitted up to, and including, the quarter ended May 2016;

- Since the last report to creditors, LBL has received repayments from HMRC for the February and May 2016 quarters totalling £221k and £317k respectively; and
- Preparation of the VAT return for the quarter ended August 2016 for submission shortly after the reporting period.

#### PAYE and other employment taxes

- Trustees have contacted the remaining five former Lehman employees who are beneficiaries to the Lehman Brothers Employment Benefit Trust ("EBT") in order to finalise open issues.

#### Future work

Over the next six months, the tax team's work will include:

- Finalising and submitting the corporate tax return to 31 May 2015;
- Drafting the group relief agreement for 2015;
- Finalising the intercompany reconciliation process;
- Liaising with HMRC to conclude the agreement of its unsecured claims;
- Settlement of post appointment employment tax liabilities;
- Continuing to pursue potential settlement of the EBT PAYE liabilities and facilitating the ultimate closure of the scheme;
- Dealing with residual employer tax issues;
- Providing tax advice and support in relation to the Waterfall III application;
- Complying with SAO and FATCA as required.

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## Section 3 Statutory and other information

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<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Case 7945 of 2008
<i>Full name:</i>	Lehman Brothers Limited
<i>Trading name:</i>	Lehman Brothers Limited
<i>Registered number:</i>	846922
<i>Registered address:</i>	7 More London Riverside, London, SE1 2RT
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	MJA Jervis and Z Hussain, of PricewaterhouseCoopers LLP, 7 More London Riverside, SE1 2RT
<i>Changes in Administrator:</i>	Z Hussain replaced D Schwarzman, AV Lomas, S Pearson and G Parr on 1 June 2016
<i>Appointer's / applicants' name and address:</i>	High Court of Justice, Chancery Division, Companies Court on the application of the directors of the Company, 25 Bank Street, London, E14 5LE.
<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 Court has granted four successive extensions to the Administration to: 30 November 2011; 30 November 2013; 30 November 2014; and 30 November 2016. An application has been made to the Court to further extend the period of the Administration to 30 November 2020.
<i>Estimated dividend for unsecured creditors:</i>	<p>An Order was granted giving the Joint Administrators leave to pay distributions to (non-preferential) unsecured creditors of LBL.</p> <p>The Joint Administrators declared and paid a first interim dividend of 1.66p in the £ to the unsecured creditors on 15 December 2014. The timing and quantum of any future dividends are currently uncertain.</p>

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## ***Section 4 Joint Administrators’ remuneration and other matters***

### ***Background***

In this case, the Committee is responsible for agreeing the basis and quantum of the Administrators’ remuneration.

### ***The Insolvency Rules (“IR86”)***

By way of context, the manner in which the Administrators’ remuneration is determined and approved is set out in 2.106 to 2.109 IR86.

There are two alternative fee bases under IR86, either:

- A percentage of the value of the property with which the administrator has to deal; or
- By reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.

IR86 also provide that in arriving at its decision on remuneration, the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the administrator;
- The effectiveness with which the administrator appears to be carrying out, or to have carried out, their duties; and
- The value and nature of the property which the administrator has to deal with.

### ***Statement of Insolvency Practice No. 9 (“SIP9”)***

In addition to IR86, SIP9, issued by the Joint Insolvency Committee, provides guidance to insolvency practitioners in relation to the disclosure of payments to insolvency office holders and their associates.

The purpose of SIP9 is to set out the principles and key compliance standards with which insolvency practitioners are required to comply with regard to the provision of information to creditors and other interested parties who have a financial interest in the level of office holders’ remuneration, disbursements and expenses paid from an insolvent estate.

In accordance with SIP 9, which was revised with effect from 1 December 2015, Section 5 shows a summary of the work undertaken by the Administrators in the reporting period and, to the extent that is not prejudicial to the interests of the Company, the expected future work the Administrators are to carry out to achieve the purpose of the Administration is shown in Section 2.

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

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

A copy, free of charge, can be obtained from the Administrators.

### ***Resolutions of the Creditors’ Committee***

Given the fundamental uncertainties about the value of the property with which the Administrators have to deal, the Committee resolved that the Administrators’ remuneration be based on the ‘time properly given’ basis – i.e. an hourly billing basis.

The Committee also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and the extent to which the Administrators can draw remuneration is subject to its approval.

### ***Costs incurred and approved to date***

To 14 September 2016, the Administrators have drawn fees of £28.1m, including £0.5m of disbursements, (exclusive of VAT) in accordance with the Committee resolution and approvals. These fees are shown in the receipts and payments account at Section 7. During the reporting period, the Administrators drew fees of £4.3m on account of their time costs.

The time cost charges incurred in the period 1 March 2016 to 31 August 2016 are £4.05m. An analysis of

the total hours and cost incurred by grade of staff can be found at Section 5.

### **Hourly rates**

The following table summarises the hourly rate ranges charged per hour for the grades of staff who have already worked on the Administration during the reporting period:

<b>Grade</b>	<b>Min Rate (£)</b>	<b>Max Rate (£)</b>
Partner	781	1,101
Director	336	1,015
Senior Manager	295	932
Manager	119	632
Senior Associate	90	416
Associate	83	271

### **Payments to associates**

Fees of £12.3k were paid to PricewaterhouseCoopers Limited (Hong Kong) in the period covered by this report.

These fees were in respect of time spent pursuing LBL's financial interest in various Group companies in Asia and were paid as part of the Administrators' remuneration in accordance with the resolution of the Committee.

LBIE costs of £40.1k were paid for work done in facilitating access by LBL to information held in the UK Lehman archive.

### **Subcontractors**

No work was subcontracted by the Administrators in the reporting period.

### **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.

### **Legal and other professional firms**

A summary of legal advisors instructed by the Administrators can be found at Section 6. The Administrators are satisfied that the level of legal and professional costs are appropriate.

### **Disbursements**

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

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs, statutory advertising and insolvency office holders' insurance.

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

The following disbursements were incurred in the reporting period:

<b>Description</b>	<b>Category 1 (£)</b>	<b>Category 2 (£)</b>
Reimbursement of staff expenses	120,444	456
Print costs	-	491
Research costs	-	20
Litigation document processing costs	70,060	-
<b>Total</b>	<b>190,504</b>	<b>967</b>

# Section 5 Analysis of the Joint Administrators' time costs

The table below summarises time spent by the Administrators and their staff in the six month period from 1 March 2016 to 31 August 2016.

Reporting Category	Partner		Director		Senior Manager		Manager		Senior Associate		Associate		Total	
	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £
Strategy and planning	84.00	75,516	-	-	168.10	88,589	20.00	8,880	55.75	18,293	13.25	3,127	341.10	194,405
Statutory and compliance	3.00	2,579	-	-	3.35	1,765	189.80	84,271	18.05	6,697	425.30	100,290	639.50	195,602
Accounting and Treasury	0.50	391	0.40	274	0.95	526	80.50	35,742	191.55	57,310	64.65	15,257	338.55	109,500
Tax and VAT	16.40	18,056	37.95	37,932	52.00	38,096	37.75	21,599	58.75	23,952	22.19	4,945	225.04	144,580
Intercompany	-	-	4.20	2,877	17.40	9,170	20.50	9,102	52.95	14,349	3.55	838	98.60	36,336
Litigation	66.50	61,501	36.35	17,752	894.75	412,120	1,674.95	687,008	3,210.20	868,707	10,575.30	834,224	16,458.05	2,881,312
Employee and creditor claims	32.00	28,768	10.50	7,959	52.30	27,562	494.10	176,623	458.10	131,559	564.05	113,760	1,611.05	486,231
Total	202.40	186,811	89.40	66,794	1,188.85	577,828	2,517.60	1,023,225	4,045.35	1,120,867	11,668.29	1,072,441	19,711.89	4,047,966
Average rate (£/Hour)		922.98		747.14		486.04		406.43		277.08		91.91		205.36

Summary of time costs incurred to 31 August 2016		Cost £
Cumulative time costs to 29 February 2016		24,179,057
Time costs incurred in the period 1 March to 31 August 2016		4,047,966
Total		28,227,023



Examples of work undertaken in the six month period to 31 August 2016, broken down by category are as follows:

### ***Strategy and planning - £194k***

This work relates to directing and coordinating the overall conduct of the Administration so that it is progressed in a timely and efficient manner for the benefit of the Company's creditors. Key activities include:

- Considering and directing the overall strategy for LBL, including engagement with stakeholders;
- Oversight of the claims adjudication process;
- Directing LBL's engagement in the Waterfall I, II and III applications for directions;
- Interactions with LBIE's Administrators in relation to the pension claim, recharges and the contribution claim;
- Coordinating, directing and resourcing workstream activities;
- Oversight of reporting and accounting, including periodic meetings to monitor progress;
- Interacting with parties interested in acquiring claims against the Company; and
- Oversight of funds management and investment strategy.

### ***Statutory and compliance - £196k***

Work the Administrators undertake in order to ensure compliance with statutory and regulatory requirements. Key activities include:

- Preparing presentation for and organising the Committee meeting held in June 2016;

- Communications to and consultations with Committee members in relation to the Waterfall III application, the replacement of LB 745, the changes in Administrator and other matters;
- Six monthly review of case progress;
- Statutory filings at Companies House and Court;
- Preparing and circulating the Administrators' progress report to creditors for the six months to 14 March 2016;
- Effecting the appointment of Zelf Hussain and the resignation of the Resigning Administrators in accordance with the order of the Court, including publication on LBL website;
- Recording, monitoring and reporting of time spent by Administration case staff; and
- Reviewing and approving legal and other third party costs and invoices.

### ***Accounting and treasury - £110k***

Work reported in this category relates to LBL's accounting and treasury activities to maximise interest receipts, manage liquidity and minimise financial risk, preserving value for creditors. Key activities include:

- Investment, monitoring and control of LBL's free cash resources, including ensuring cash held at best rates only in approved banks and subject to frequently reviewed limits;
- Monitoring investment strategy and adapting in response to changing market conditions;
- Reviewing liquidity and investment maturities to ensure sufficient cash to meet administration expenses;
- Liaison with LBIE regarding recharges;



- Processing of receipts and payments and maintenance of case ledger;
- Preparing of periodic receipts & payments reports and information to support financial management;
- Providing input to VAT returns and distribution of VAT receipts to other Lehman Administration Companies; and
- Provision of assistance to Tax and Human Resource teams.

### ***Tax and VAT - £145k***

Work reported in this category includes compliance with tax legislation under the Administrators' obligations as proper officers for tax, and planning to ensure the efficient realisation of assets for the benefit of the Company's creditors as a whole. For further information see Section 2.4.

### ***Intercompany - £36k***

This work relates to the agreement of intercompany balances and collection of receivables for the benefit of creditors. Excludes matters actually or potentially the subject of litigation. See Section 2.1 for further detail.

### ***Litigation - £2.9m***

Work reported in this category relates to the Waterfall issues, complex proceedings associated with LBL's registered shareholding in LBIE and in respect of the recharge of costs to LBIE (and LBEL). Resolution of these issues is necessary in order to enable further distributions to LBL's creditors. For further information see Section 2.2. Work performed includes:

- Considering complex questions with solicitors and Counsel and identifying the appropriate strategy and the factual enquiries required;
- Conducting complex negotiations with LBIE and other entities;

- Assembling and managing expert teams to support the document review process;
- Extracting and searching by electronic means both soft and hard copy documents;
- Review of large numbers of documents identified through searches as potentially relevant;
- Reviewing accounting information to understand the operation of recharges and other matters;
- Preparing for interviews with key individuals;
- Summarising and explaining information, for use by solicitors and Counsel;
- Attending Court hearing; and
- Generally, supervising, managing and directing the litigation process.

### ***Employee and creditor claims - £486k***

*25 Bank Street claim – £373k*

A considerable amount of work reported in this category relates to the litigation between LBL and its former landlord, including supervising, management and direction of the litigation, disclosure document review, discussions with legal advisors and preparation of witness statements. A resolution of this matter will be for the benefit of LBL's creditors.

*General supplier creditor claims – £81k*

As reported, a number of claims have been adjudicated in the period. In addition, work has been undertaken on a complex claim in excess of £3m, which has required legal advice and specialist input from the Administrators' forensics team.

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*Employee claims - £32k*

There are three large employee claims totalling c£1.2m, which remain outstanding and work has been undertaken to adjudicate these claims.

See Section 2.3 for further information on the above workstreams.

## Section 6 Legal and other professionals

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services, including:			
• Local advice on overseas asset realisations	• Buis Burgi AG	• Specialist knowledge and experience (in overseas jurisdictions, where applicable)	• Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.
• Litigation advice and considerable input on matters including those central to the “Waterfall” proceedings.	• Dechert LLP		
	• DLA Piper UK LLP		
	• Linklaters LLP		
	• Mori Hamada and Masumoto		
• Legal input into the claims adjudication process where required and proceedings where the rejection of claims is appealed to Court.			
• Advice on other ad-hoc matters, including the extension of the term of the Administration.			
• Expert witness services in respect of 25 Bank Street claim.	• Knight Frank LLP	• Specialist knowledge and experience with property valuation and disputes;	• Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.
• US tax advice in relation to the Waterfall III application.	• PricewaterhouseCoopers LLP (US)	• Specialist knowledge of US tax jurisdiction.	• Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.

# Section 7 Receipts and payments to 14 September 2016

Amount in millions	GBP	EUR	USD	CHF	As at 14 Sep 2016 Total in GBP	As at 14 Mar 2016 Total in GBP	Movement
<b>Receipts</b>							
Contribution from third parties <sup>1</sup>	141.9	0.6	11.3	-	149.6	149.6	-
Building recharge receipts	130.3	-	-	-	130.3	130.3	-
Payroll recharge receipts	502.0	0.1	57.1	-	538.4	538.4	-
Other (including realisations and payments for other companies)	272.0	3.0	195.2	0.2	399.3	310.4	88.9
Tax related receipts	702.2	-	-	-	702.2	696.2	6.0
VAT received on invoices	7.2	-	-	-	7.2	7.2	-
<b>Total receipts for period</b>	<b>1,755.6</b>	<b>3.7</b>	<b>263.6</b>	<b>0.2</b>	<b>1,927.0</b>	<b>1,832.1</b>	<b>94.9</b>
<b>Payments</b>							
Building and occupancy cost	(179.5)	(0.3)	(62.9)	-	(219.8)	(219.8)	-
Payroll and employee costs <sup>2</sup>	(520.4)	(2.8)	(45.2)	-	(551.5)	(551.4)	(0.1)
Return of recharge surplus	(2.4)	-	-	-	(2.4)	(2.4)	-
Other costs and payments	(69.5)	(0.3)	(1.2)	-	(70.5)	(70.4)	(0.1)
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(22.2)	-	-	-	(22.2)	(17.4)	(4.8)
Administrators' fees <sup>3</sup>	(28.1)	-	-	-	(28.1)	(23.8)	(4.3)
Return of Corporation Tax to group companies	(466.7)	-	-	-	(466.7)	(466.7)	-
VAT related payments	(182.2)	-	-	-	(182.2)	(170.0)	(12.2)
VAT paid on invoices	(10.7)	-	(1.4)	-	(11.6)	(11.6)	-
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
<b>Total payments for period</b>	<b>(1,484.5)</b>	<b>(3.4)</b>	<b>(110.7)</b>	<b>-</b>	<b>(1,557.8)</b>	<b>(1,536.3)</b>	<b>(21.5)</b>
<b>Inter-currency transfers</b>							
Receipts from inter-currency transfers	130.2	2.7	57.8	-	168.9	162.4	6.5
Payments from inter-currency transfers	(31.1)	(2.9)	(210.7)	(0.2)	(167.8)	(161.8)	(6.0)
<b>Net inter-currency transfers</b>	<b>99.1</b>	<b>(0.2)</b>	<b>(152.9)</b>	<b>(0.2)</b>	<b>1.1</b>	<b>0.6</b>	<b>0.5</b>
<b>Distributions</b>							
Distribution to preferential creditors @ 100p/£ (declared 07/06/13)	(1.9)	-	-	-	(1.9)	(1.8)	(0.1)
Distribution to unsecured creditors @ 1.66p/£ (declared 15/12/14)	(1.8)	-	-	-	(1.8)	(1.7)	(0.1)
<b>Total distributions</b>	<b>(3.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3.7)</b>	<b>(3.5)</b>	<b>(0.2)</b>
<b>Net cash position</b>	<b>366.5</b>	<b>0.1</b>	<b>0.0</b>	<b>-</b>	<b>366.6</b>	<b>292.9</b>	<b>73.7</b>
<b>Bank balances</b>							
Bank of England	-	-	-	-	-	-	-
HSCB <sup>4</sup>	5.1	0.1	-	-	5.2	43.0	(37.8)
Money Market Funds	361.4	-	-	-	361.4	249.9	111.5
<b>Net bank balance</b>	<b>366.5</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>366.6</b>	<b>292.9</b>	<b>73.7</b>

Notes: Rates used for conversion are Financial Times rates fixed on 14 March 2012.

1) Includes elements of building & occupancy and payroll related recharges

2) Payroll cost attributable to LBL

3) Includes Administrators' disbursements of £0.5m

4) Funds held in interest bearing accounts

\* The Administrators have not provided a current estimated outcome statement because this information is commercially sensitive and may be prejudicial to the Administration

## Section 8 Statement of expenses

The following table provides details of Administration expenses. Expenses are amounts properly payable by the Administrators from the estate including fees, but excluding distributions to creditors. The table also excludes any potential tax liabilities payable as an Administration expense because amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account at Section 7, which shows expenses paid during the period and the total paid to date.

R&P category	Paid in previous periods (£m)	Paid in period (£m)	Incurred in period but not paid (£m)	Cumulative (£m)	Estimated future (£m) <sup>1</sup>	Estimated total (£m)
Building and occupancy costs	219.8	-	-	219.8	-	219.8
Payroll and employee costs	551.4	0.1	-	551.5	-	551.5
Return of recharge surplus	2.4	-	-	2.4	-	2.4
Other costs and payments	70.4	0.1	-	70.5	5.0	75.5
Other advisors' costs <sup>2</sup>	1.3	-	-	1.3	Materially uncertain	Materially uncertain
Legal fees <sup>2</sup>	17.4	4.8	1.6	23.8	Materially uncertain	Materially uncertain
Administrators' time costs <sup>2,3</sup>	23.4	4.2	1.5	29.1	Materially uncertain	Materially uncertain
Administrators' disbursements <sup>2</sup>	0.4	0.1	0.2	0.7	Materially uncertain	Materially uncertain
<b>Total</b>	<b>886.5</b>	<b>9.3</b>	<b>3.3</b>	<b>899.1</b>	Materially uncertain	Materially uncertain

### Notes:

- 1) Relates only to LBL costs. No provision has been made for costs borne by LBL and recharged to other Lehman estates.
- 2) These costs are highly contingent on the outcome of ongoing and prospective litigation, further information on which can be found at Section 2. As a result, it is not possible to provide a meaningful estimate of the total expense.
- 3) The Administrators estimate that those costs not dependent (except in duration) upon the progression of issues subject to litigation and that are currently required to maintain the routine aspects of the Administration are c. £700k per annum (c. £225k Strategy & Planning; c. £125k Statutory & Compliance; c. £100k Accounting & Treasury; c. £125k Tax & VAT).
- 4) Excludes VAT, which is partly recoverable.

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