
Lehman Brothers Limited – In Administration

Joint Administrators' progress
report for the period 15 March 2017
to 14 September 2017

11 October 2017

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 18th progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Limited ("LBL" or the "Company").

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 2017 (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 Lehman Brothers Group of companies (the "Group") 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 how key aspects of the Administration are being dealt with and to consult with the Committee on critical issues.

To date, the Administrators have held 26 meetings with the Committee. The next meeting is yet to be formally confirmed, but is planned to be held in November 2017.

Outcome for unsecured creditors

Creditors will recall that before commencement of this reporting period, the Administrators had paid a dividend of 100p in the £ to former employees on admitted preferential claims (comprising claims for unpaid wages and holiday pay). The Administrators

had also declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors.

On 7 August 2017 notice of intention of dividend was given by the Administrators of LBL to the ordinary unsecured creditors, with the last date for proving claims being 4 September 2017.

On 6 September 2017 the Administrators declared a second interim dividend of 98.34p in the £ to ordinary unsecured creditors, to bring total dividends declared to ordinary unsecured creditors to 100p in the £.

The Administrators also declared a first interim dividend of 77.44p in the £ to creditors with subordinated claims.

Settlement of Waterfall III


Declaration of the dividends set out above was enabled by agreement of a settlement in respect of the Waterfall III proceedings, which became effective on 6 September 2017. The Waterfall III proceedings have been terminated.

Further information is provided in Section 2.2.

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/insolvency-practitioner-code-of-ethics>.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Section 2 Joint Administrators' actions to date

Creditors will be aware that before the Administration, LBL held most of the UK service and employee contracts on behalf of 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 2017 to 14 September 2017 includes:

- Judgment of the Supreme Court in the Waterfall I proceedings;
- Settlement of the Waterfall III proceedings, further explained below;
- Continued adjudication of claims of ordinary unsecured creditors and payment of further catch-up dividends totalling £9.5m;
- Implementation of the settlement of the Waterfall III proceedings including payment of a second interim dividend to ordinary unsecured creditors of 98.34p in the £, totalling £667.3m, and of a first interim dividend to subordinated unsecured creditors of 77.44p in the £ totalling £19.4m;

- 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 decreasing by £252.7m to £137.7m in the reporting period. Key movements include:

- Intercompany debtor recoveries of c. £450.8m;
- VAT of c. £2.8m recovered in LBL's capacity as the representative member of the VAT group;
- Accounting to other Lehman Administration Companies for VAT refunds of c. £4.0m;
- Payment of second interim dividend of 98.34p in the £ to unsecured creditors; and
- Payment of first interim dividend of 77.44p in the £ to subordinated creditors.

As set out in earlier Progress Reports, 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 further work pursuant to their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

2.1 Intercompany balances

Overview

As set out 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 Lehman Brothers Europe Limited (in Administration) (“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.

The Waterfall III settlement provided that the final account balance between LBL and LBIE, and between LBL and LBEL, were agreed as nil and £282.2m respectively.

To date, LBEL has paid dividends totalling 100p in the £ to its unsecured creditors, whose claims have been admitted, and following the Waterfall III settlement, has paid both statutory interest to its creditors and a surplus to its shareholder, Lehman Brothers Holdings Plc (“LBH Plc”).

LBL is the largest creditor of LBH Plc by value, with an admitted claim of £709m. Also as a part of the Waterfall III settlement, LBH Plc declared a further interim dividend to its creditors including LBL, which received £446.4m. This brings the total amount it has paid to date to 69.04p in the £.

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. Distributions of \$3.9m were received in the reporting period. The total recovery from these claims remains uncertain, but further distributions are anticipated on a six monthly basis with the most recent received on 5 October 2017;

- £1.1m was received from the estate of Lehman Brothers Securities Private Limited, registered in India, in full and final settlement;
- A fourth distribution of £213k was received from the liquidators of Lehman Brothers ODC3 Limited; 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 20 other Group balances where there remains a reasonable prospect of future realisations.

2.2 Waterfall proceedings

The “Waterfall” proceedings insofar as they relate to LBL address (1) LBL’s potential liability as the registered holder of one share in LBIE, an unlimited company, and (2) the recharges made by LBL to other Group companies in respect of costs incurred.

The outcome of the “Waterfall” proceedings to a large extent determined the total amount of claims admitted in LBL’s estate, and therefore the dividend 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 Holdings Intermediate 2 Limited (in Administration) (“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).

Details of the judgments in the High Court and Court of Appeal are set out in earlier Progress Reports. Also as previously reported, a number of issues were the subject of appeals to the Supreme Court, and the appeals were heard in October 2016.

On 17 May 2017, the Supreme Court handed down its judgment.

In brief, (insofar as the issues were directly relevant to LBL) it was held that:

- (i) the Administrators of LBIE (an unlimited company) may not prove in the Administrations of its registered shareholders (LBL and LBHI2) for the amount of their contingent liability to contribute (such power being reserved to a Liquidator of LBIE, when appointed);
- (ii) any contribution claim made by a future Liquidator of LBIE cannot include interest payable to LBIE’s creditors for periods after the Administration of LBIE (or after liquidation, if LBIE should go into liquidation) (“statutory interest”), but is limited to amounts required to pay “debts and liabilities” (i.e., secured, unsecured and non-provable claims); statutory interest only being payable out of any surplus;
- (iii) “currency conversion claims” (CCCs), being the difference between the sterling value of foreign currency claims at the date of Administration and the

foreign currency value of dividends paid in sterling on such claims, cannot be claimed as non-provable claims or otherwise;

- (iv) If the Administration of LBIE is immediately followed by a liquidation, any statutory interest which was payable for the period of Administration but which was not paid before commencement of the liquidation, cannot be claimed from or paid by a subsequent liquidator;
- (v) LBIE’s shareholders could have their proofs admitted in LBIE’s Administration, but when paying distributions to them LBIE’s Administrators would be entitled to retain their “reasonable maximum potential liability as a contributory”.

The decisions of the Supreme Court on issues (i) to (iv) above were favourable to LBL. The decision on issue (v) was not as sought, but had no economic impact for LBL as a consequence of the decisions on issues (i) to (iv) and the overall position of LBIE’s estate.

“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 were granted leave to appeal and the appeal of a number of issues decided in Parts A and B, and of some supplemental issues, was heard in April 2017, with a short further hearing in July 2017 to address the impact of the decision of the Supreme Court in Waterfall I. Part C was heard in November 2015 and judgment handed down in October 2016. Leave has been granted to appeal certain declarations in judgment in Part C. That appeal is listed to be heard later in 2017.

LBL is not party to the Waterfall II application. The outcome of the Waterfall II application might materially impact the potential liabilities of LBIE, but following the judgment of the Supreme Court in Waterfall I it is unlikely to impact any potential

liability of LBL as the former registered holder of a share in LBIE (the share having been transferred to LBHI2 as part of the Waterfall III settlement).

The Administrators have therefore ceased to monitor this application, albeit continuing to reserve 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.

“Waterfall III” application

The Waterfall III application concerned (in brief) the basis on which LBL was the registered holder of one share in LBIE, the 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, and the inter-relationship between LBL and LBHI2 (LBIE’s majority shareholder).

As previously reported, the application was split into issues of law (‘Part A’) and of fact (‘Part B’) on the request of LBIE, LBHI2, LBEL and LBH Plc. This split was opposed by LBL on the grounds that the factual and legal issues are inextricably intertwined.

The Part A trial took place in February 2017, over 8 days. Judgment was reserved pending judgment by the Supreme Court of the appeals in Waterfall I.

The Part B trial was listed to be heard in September 2017. As it addressed issues of fact concerning transactions and relationships between Lehman Group companies in a period of more than 20 years leading to the Administration, establishing and verifying relevant facts was extremely intensive and time consuming.

Following the judgment of the Supreme Court, at a hearing on 28 July 2017, it was decided that the Part B trial would proceed in September 2017 but with a reduced list of issues.

Settlement of Waterfall III

In parallel with the Waterfall III proceedings, settlement negotiations were commenced. The judgment of the Supreme Court resulted in both a material change in the terms of the negotiation, and an acceleration of the negotiation process.

On 9 August 2017, LBIE issued an announcement in relation to the proposed settlement of the Waterfall III proceedings, providing an update in relation to two significant milestones:

1. On 1 August 2017, Mr Justice Hildyard had given relevant Lehman UK Affiliates permission to enter into a settlement; and
2. The settlement documents had been finalised and executed

The hearing of Waterfall III Part B, listed for September 2017, was vacated.

The principal terms of the Settlement included:

- The balance between LBL and LBIE was agreed as nil (as previously reported, LBIE had submitted a claim against LBL for £10.4 bn, the principal component of which being a contribution claim for £10bn);
- The claim of LBEL in LBL was agreed at £282.2m;
- The claim of LBHI2 in LBL was agreed at £257.2m;
- The claim of LBL in LBH was agreed at £709m; and
- LBL would transfer to LBHI2 its one share in LBIE (LBHI2 being the majority shareholder).

LBL, LBH Plc and LBHI2 agreed to coordinate declaration of dividends, issuing Notices of Intention to pay Dividends with last dates for proving as 4 September 2017. LBEL agreed to effect a capital reduction to return funds to its shareholder, LBH Plc. LBIE agreed not to object to LBL and LBHI2 paying dividends without reserving for any contribution claim.

Coordination of payment of dividends was necessary because of the interlinked nature of claims; for example, LBL is the majority unsecured creditor of LBH Plc and therefore the larger part of the value of any dividend paid by LBL to LBEL would flow to LBH Plc, and thence back to LBL.

The Settlement was completed and became final on 6 September 2017. Each of the entities paid dividends as agreed, the Waterfall III proceedings were terminated, and the share in LBIE registered to LBL was transferred to LBHI2.

It is anticipated that there will be additional realisations in due course, in the form of additional dividends declared by LBH Plc and other companies.

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.

Unsecured creditors

Creditors are also aware from previous reports that a first interim dividend of 1.66p in the £ was declared and paid to ordinary unsecured creditors on 15 December 2014.

A second interim dividend of 98.34p in the £ was declared on 6 September 2017 and paid shortly thereafter to ordinary unsecured creditors.

Following the payment of dividends totalling 100p in the £ to ordinary unsecured creditors, a first interim dividend of 77.44p in the £ was declared and paid to subordinated creditors.

Claims agreement

Unsecured claims as at 14 September 2017 are as follows*:

	£m
Received	214.3
Less: Admitted	(180.9)
Less: Rejected	(15.6)
Balance under review	17.8

* Excludes claims from LBIE, LBEL and LBHI2 impacted by the outcome of Waterfall III. These claims have now been agreed at nil, £282.2m and £257.2m respectively.

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

Claims under review

Work has continued to review 12 claims totalling £17.8m. The Administrators expect to have

adjudicated the majority of the remaining claims by the time of their next progress report.

Employee claims

The Administrators have continued to correspond with a small number of employee creditors regarding the adjudication of their claims. This includes eleven former employees with outstanding Employment Tribunal claims.

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 £9.5m 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 previously reported, the landlord of 25 Bank Street appealed the Administrators' rejection of its claim, which was substantial and complex. The Court hearing was scheduled for February 2017. The parties have agreed a settlement to resolve the proceedings; the terms of which are confidential.

Claim reserves and dividend prospects

The Administrators continue to reserve for claims not yet finalised. Reserves previously held in respect of inter-company claims from LBIE, LBEL and LBHI2 have been released following agreement of those claims in the Waterfall III settlement.

The quantum and timing of any payments in respect of post-Administration, statutory interest is currently uncertain and will depend on progress in addressing claims reserved for, payment of the balance of claims of subordinated creditors and additional realisations principally from LBL's claim in LBH Plc.

Issues and priorities

The Administrators' priorities in relation to creditor claims for the next six months is to continue to review and adjudicate outstanding unsecured claims, including dealing with any new claims received, and paying catch up dividends on agreed claims.

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 historic Group loss allocation for corporation tax purposes.

Progress

Specific progress in the reporting period includes:

Corporation Tax

- Submission of the 2015 tax return and drafting of the 2016 tax return.
- Providing tax advice and support in relation to the settlement of the intercompany positions.
- Compliance with the Administrators' responsibilities under Senior Accounting Officer ("SAO") legislation, Tax Strategy and Corporate Criminal Offence ("CCO") legislation.
- Adherence to the UK and US Foreign Account Tax Compliance Act ("FATCA") and Common Reporting Standards ("CRS").
- Considering and discussing with HMRC the potential deduction of income tax at source in the event statutory interest is paid to creditors. If statutory interest is not "annual interest" then it may be paid gross. The Court has held statutory interest is not annual interest, but the judgment has been appealed by HMRC and it is therefore uncertain whether income tax should or should not be deducted at source. We have sought to agree with HMRC a practical way forward.

VAT

- All group VAT returns have been submitted up to, and including, the quarter ended May 2017.
- Since the last report to creditors, LBL has received a repayment from HMRC for the February 2017 quarter totalling £2.1m.

PAYE and other employment taxes

- Dealing with residual employment tax issues.
- Providing tax advice and support on the appropriate tax treatment on the second interim dividends paid to former employees, including correspondence and discussions with HMRC.

Future work

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

- Finalising and submitting the corporate tax return to 31 May 2016 and 31 May 2017;
- Drafting the group relief agreement for 2015 and 2016;
- Finalising the intercompany reconciliation process;
- Liaising with HMRC to finalise its unsecured claim;
- Dealing with residual employment tax issues and the beneficiaries of the Lehman Brother Employment Benefit Trust ("EBT");
- Complying with SAO, Tax strategy, CCO and FATCA and CRS as required;
- Preparation of the VAT return for the quarter ended August 2017;
- Continuing to provide tax and accounting advice and support on any distributions of statutory interest to creditors; and
- Following up on any queries arising from HMRC on employee payments.

Section 3 Statutory and other information

<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 five successive extensions to the Administration to: 30 November 2011; 30 November 2013; 30 November 2014; 30 November 2016; and 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 Administrators declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors on 15 December 2014, and declared on 6 September 2017 and paid shortly thereafter a second interim dividend of 98.34p to ordinary unsecured creditors.</p> <p>Following the payment of dividends totalling 100p in the £ to ordinary unsecured creditors, a first interim dividend of 77.44p in the £ was declared and paid to subordinated creditors.</p> <p>The Administrators are at present unable to estimate the likely timing or quantum of a second interim dividend to subordinated creditors or of any payments in respect of post-Administration, statutory interest.</p>

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 2016 (“IR16”)

There are three alternative fee bases under IR16, either or combination of:

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

IR16 also provides 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 IR16, 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 SIP9, 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 2017, the Administrators have drawn fees of £34.2m, including £0.9m 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 £2m on account of their time costs and £0.2m of disbursements (exclusive of VAT).

The time cost charges incurred in the period 1 March 2017 to 31 August 2017 are £1.99m. 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:

Grade	Min Rate (£)	Max Rate (£)
Partner	781	1,145
Director	336	1,092
Senior Manager	318	969
Manager	281	657
Senior Associate	166	433
Associate	56	245

Payments to associates

PricewaterhouseCoopers LLP (US) costs of \$2.5k were paid for advice provided on US tax matters in relation to the Waterfall III application.

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:

Description	Category 1 (£)	Category 2 (£)
Reimbursement of staff expenses	1,074	27
Posting and Printing	292	
IT/ Licence costs		63,620
Total	1,366	63,647

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 2017 to 31 August 2017.

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	5	3,921	-	-	166	88,410	50	23,218	-	-	31	7,529	252	123,078
Statutory and compliance	5	3,921	-	-	8	4,138	146	65,204	37	13,625	215	51,340	411	138,228
Accounting and Treasury	-	-	1	406	19	10,348	56	25,094	194	59,963	47	11,114	317	106,925
Tax and VAT	60	66,647	150	150,602	138	95,515	262	147,679	156	59,010	112	24,413	878	543,866
Intercompany	-	-	-	-	2	1,265	5	2,119	14	3,777	13	3,112	34	10,273
Litigation	214	195,725	27	9,120	591	302,779	386	168,327	327	98,116	98	19,343	1,643	793,410
Employee and creditor claims	8	7,550	8	5,837	68	33,602	150	63,018	225	84,563	332	77,372	791	271,942
Total	292	277,764	186	165,965	992	536,057	1,055	494,659	953	319,054	848	194,223	4,326	1,987,722
Average rate (£/Hour)		951		892		540		469		335		229		459

Summary of time costs incurred to 31 August 2017	Cost £
Cumulative time costs to 28 February 2017	31,514,907
Time costs incurred in the period 1 March 2017 to 31 August 2017	1,987,722
Total	33,502,629

Examples of work undertaken in the six month period to 31 August 2017, broken down by category, are as follows:

Strategy and planning - £123k

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;
- Coordinating Waterfall III settlement discussions; and
- Oversight of funds management and investment strategy.

Statutory and compliance - £138k

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

- Reporting to the Committee at meeting held on 9 June 2017;

- Communications to and consultations with Committee members in relation to the Waterfall III proceedings and other matters;
- Preparing and issuing March progress report to unsecured creditors;
- Six monthly review of case progress;
- Other statutory filings at Companies House and Court;
- 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 - £107k

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 reviewing in response to changing market conditions;
- Reviewing liquidity and investment maturities to ensure sufficient cash to meet Administrators' expenses;
- Periodic audit of treasury processes and procedures;
- Adherence to the UK and US FATCA and CRS;

- Preparing of periodic receipts & payments reports and information to support financial management and decision making;
- Periodic reconciliation of bank accounts to ledger;
- Providing input to VAT returns and distribution of VAT receipts to other Lehman Administration companies; and
- Foreign exchange transfers on receipt of material foreign currency balances.

Tax and VAT - £544k

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. Work performed includes:

- Preparation and submission of VAT returns;
- Distribution of VAT receipts received as Representative Member to other Lehman estates and collecting VAT contributions;
- Preparation of accounting information to support tax computations;
- Preparation and submission of tax returns;
- Administration of group tax losses to 31 May 2016;
- Liaising with HMRC regarding settlement of pre and post Administration PAYE liability;
- Discussions with HMRC concerning agreement of ITMAR/forgivable loan position going forward;
- Submission of monthly RTI returns for former employee dividend payments and tax adjustments;

- Tax input on review of unsecured claims where required;
- Tax input on potential settlement of Waterfall III and inter-company position;
- Audit of VAT and tax returns, implementation and monitoring of risk and quality metrics;
- Providing tax advice in relation to the potential deduction of income tax at source in the event statutory interest payments are made to creditors;
- Compliance with various reporting obligations including tax strategy and corporate criminal offence legislation; and
- Providing tax advice and support on the appropriate tax treatment on the second interim distribution to former employees including correspondence and discussions with HMRC.

For further information see Section 2.4.

Intercompany - £10k

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 - £793k

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 was necessary in order to enable further distributions to LBL's creditors. For further information see Section 2.2. Work performed includes:

- Preparing with legal advisors and counsel a number of detailed position papers to be submitted to the Court;

- Detailed review of LBIE, LBEL, LBHI2 and LBH Plc responses to LBL position papers with legal advisors and counsel;
- Considering implications of division of legal ('Part A') and factual ('Part B') aspects of the trial with legal advisors and counsel;
- Ongoing consideration of litigation strategy, evidence and arguments with solicitors and Counsel and preparation for Part B hearing;
- Finalising internal recharge, shareholding and deferred tax analysis papers with input from Third Level teams, legal advisors and specialist tax input from PwC US;
- Attending LBIE premises to extract information relevant to shareholding/recharge report from Lehman accounting systems, including liaising with relevant LBIE and Lehman personnel, seeking legal assistance where required on access terms and delays;
- Further correspondence with LBIE regarding additional electronic documents held in Lehman UK archive, including confirmations on the completeness;
- Analysis of significant volumes of further documents disclosed by LBIE, liaising with LBIE on further information required to review documents; planning and resourcing review exercise;
- Coordinating and undertaking interviews with key individuals with input from legal advisors and review teams;
- Correspondence with the Court, LBIE, LBEL, LBHI2 and LBH Plc regarding disclosure, evidence and trial formalities;
- Preparing for and attending pre-trial review hearing, filing witness statement and seeking an order from the Court on expert witness formalities and facts agreed by all parties;

- Continued to engage with LBIE and other Waterfall III participants around the terms of settlement;
- Consideration of legal, tax and other considerations associated with potential settlement, outcome modelling and liaising with key stakeholders; and
- Continued monitoring of the Waterfall II application for directions by LBIE to ensure all credible arguments favourable to LBL are before the Court.

Employee and creditor claims - £272k

General supplier creditor claims

- Adjudication of supplier claims and corresponding with creditors to obtain further information;
- Payment of catch up dividends on newly admitted claims;
- Ongoing legal advice in respect of complex supplier claim;
- Dealing with a number of queries from claims aggregators and creditors who have assigned their claims; and
- Co-ordinating the review of high value complex claims including seeking legal advice;

Employee claims

- Continued work to review and adjudicate former employees' claims;
- Ongoing engagement with employee creditors to resolve outstanding employment tribunal claims and discussions with lawyers to shape strategy to deal with these claims; and
- Calculating catch up dividend payments to employee creditors.
- Defining and implementing the most appropriate tax treatment of dividends paid to former employees and calculating same; and
- Preparation of records to comply with HMRC RTI reporting requirement formats.

See Section 2.3 for further information on the above workstreams.

Second Interim Dividend (preparation)

- Undertake necessary distribution steps as part of Waterfall III settlement, including providing relevant financial and other information as required;
- Preparation and circulation of Notice of Intended Dividend to creditors, and updating the LBL web page;
- Obtaining and verifying revised bank account details from creditors;
- Validating existing bank account details of creditors;
- Preparing and conducting sanctions screening on circa 1,000 creditors/payees;
- Updating creditor contact details as notified;
- Preparation of distribution timeline to ensure compliance with statutory deadlines and safeguards;

Section 6 Legal and other professionals

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services, including: <ul style="list-style-type: none"> Local advice on overseas asset realisations. Litigation advice and considerable input on matters including those central to the “Waterfall” proceedings. 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. 	<ul style="list-style-type: none"> Buis Burgi AG Dechert LLP DLA Piper UK LLP Linklaters LLP 	<ul style="list-style-type: none"> Specialist knowledge and experience (in overseas jurisdictions, where applicable) 	<ul style="list-style-type: none"> Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.
<ul style="list-style-type: none"> US tax advice in relation to the Waterfall III application. 	<ul style="list-style-type: none"> PricewaterhouseCoopers LLP (US) 	<ul style="list-style-type: none"> Specialist knowledge of US tax jurisdiction. 	<ul style="list-style-type: none"> Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.

Section 7 Receipts and payments to 14 September 2017

	As at 14 Sep 2017				As at 14 Mar 2017		
Amount in millions	GBP	EUR	USD	CHF	Total in GBP	Total in GBP	Movement
Receipts							
Contribution from third parties ¹	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)	747.5	3.9	212.2	0.2	886.0	435.2	450.8
Tax related receipts	711.9	-	-	-	711.9	709.1	2.8
VAT received on invoices	7.2	-	-	-	7.2	7.2	-
Total receipts for period	2,240.8	4.6	280.6	0.2	2,423.4	1,969.8	453.6
Payments							
Building and occupancy cost	(179.5)	(0.3)	(62.9)	-	(219.8)	(219.8)	-
Payroll and employee costs ²	(520.4)	(2.8)	(45.2)	-	(551.5)	(551.5)	-
Return of recharge surplus	(2.4)	-	-	-	(2.4)	(2.4)	-
Other costs and payments	(69.5)	(0.3)	(1.2)	-	(70.5)	(70.5)	-
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(34.3)	-	(0.1)	-	(34.4)	(30.9)	(3.5)
Administrators' fees ³	(34.2)	-	-	-	(34.2)	(32.0)	(2.2)
Return of Corporation Tax to group companies	(466.7)	-	-	-	(466.7)	(466.7)	-
VAT related payments	(192.6)	-	-	-	(192.6)	(188.6)	(4.0)
VAT paid on invoices	(14.1)	-	(1.4)	-	(15.0)	(14.0)	(1.0)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
Total payments for period	(1,516.5)	(3.4)	(110.8)	-	(1,589.9)	(1,579.2)	(10.7)
Inter-currency transfers							
Receipts from inter-currency transfers	143.9	2.7	57.8	-	182.9	179.8	3.1
Payments from inter-currency transfers	(31.1)	(3.9)	(226.7)	(0.2)	(178.8)	(176.3)	(2.5)
Net inter-currency transfers	112.8	(1.2)	(168.9)	(0.2)	4.1	3.5	0.6
Distributions							
Distribution to preferential creditors @ 100p/£ (declared 07/06/13)	(1.9)	-	-	-	(1.9)	(1.9)	-
Distribution to unsecured creditors @ 1.66p/£ (declared 15/12/14)	(11.3)	-	-	-	(11.3)	(1.8)	(9.5)
Distribution to unsecured creditors @ 98.34p/£ (declared 06/09/17)	(667.3)	-	-	-	(667.3)	-	(667.3)
Distribution to subordinated creditors @ 77.44p/£ (declared 06/09/17)	(19.4)	-	-	-	(19.4)	-	(19.4)
Total distributions	(699.9)	-	-	-	(699.9)	(3.7)	(696.2)
Net cash position	137.2	-	0.9	-	137.7	390.4	(252.7)
Bank balances							
Bank of England	-	-	-	-	-	-	-
HSBC ⁴	4.9	-	0.9	-	5.4	5.1	0.3
Money Market Funds	132.3	-	-	-	132.3	385.3	(253.0)
Net bank balance	137.2	-	0.9	-	137.7	390.4	(252.7)

Notes:

- 1) Includes elements of building & occupancy and payroll related recharges
- 2) Payroll cost attributable to LBL
- 3) Includes Administrators' disbursements of £0.9m
- 4) Funds held in interest bearing accounts

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

1 USD = 0.6366 GBP

1 EUR = 0.8322 GBP

1 CHF = 0.6874 GBP

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) ¹	Estimated total (£m)
Building and occupancy costs	219.8	-	-	219.8	-	219.8
Payroll and employee costs	551.5	-	-	551.5	-	551.5
Return of recharge surplus	2.4	-	-	2.4	-	2.4
Other costs and payments	70.5	-	-	70.5	5.0	75.5
Other advisors' costs ²	1.3	-	-	1.3	Materially uncertain	Materially uncertain
Legal fees ²	30.9	3.5	0.1	34.5	Materially uncertain	Materially uncertain
Administrators' time costs ^{2,3}	31.3	2.0	0.2	33.5	Materially uncertain	Materially uncertain
Administrators' disbursements ²	0.7	0.2	-	0.9	Materially uncertain	Materially uncertain
Total	908.4	5.7	0.3	914.4	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. £500k per annum.
- 4) Excludes VAT, which is partly recoverable.

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