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

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

27 October 2016

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

## ***Introduction***

This is the 16th progress report by the Joint Administrators (the "Administrators") of Lehman Brothers UK Holdings Limited ("LBUKH" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 28 September 2016 ("the reporting period").

## ***Objective of the Administration***

The Administrators have pursued the objective of achieving a better result for LBUKH's creditors as a whole, than would be likely if the Company were wound up (without first being in Administration).

The specific aim of this Administration was to protect and control any return on the Company's investments in subsidiaries and intercompany book debts for the benefit of creditors.

The Administrators now consider that the objective of the Administration has been met.

## ***Outcome for creditors***

Creditors will recall that on 2 May 2014, the Court granted the Administrators permission to make distributions to LBUKH's ordinary unsecured non-preferential creditors.

### ***(i) Ordinary unsecured non-preferential creditors***

As detailed in earlier reports, the Administrators have distributed 100 pence in the £ to LBUKH's unsecured creditors in full and final settlement of their claims.

### ***(ii) Subordinated creditor***

The Administrators have now made three interim distributions to LBUKH's sole subordinated creditor, Lehman Brothers Luxembourg Investments S.a.r.l., ("LBLIS") in respect of its admitted claim of £1.05bn.

In the reporting period, the following distributions have been made:

- (i) a second interim dividend of £81.3m, equivalent to 7.7183p in the £; and
- (ii) a third interim dividend comprising a cash distribution equivalent to £30m, representing 2.8546 pence in the £, and the assignment of LBUKH's remaining assets by way of a distribution in specie, as outlined in Section 2.

The Administrators anticipate that a further, final cash dividend will be paid to LBLIS before the Administration is brought to an end.

## ***Administrators' term of office***

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

However, the Administrators are pleased to report that they have made substantial progress during the reporting period. Accordingly, the Administrators are taking steps to bring the Administration to an end.

## ***Discharge***

In accordance with the Administrators' proposals, which were approved by creditors on 3 December 2008, the Administrators are in the process of preparing an application to Court to obtain their discharge from liability following the end of the Administration.

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

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## ***Future reports***

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

Signed



GE Bruce  
Joint Administrator  
Lehman Brothers UK Holdings Limited

*AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers UK Holdings Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

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

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

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

### ***Background***

When the Administrators were appointed, LBUKH was the holding company for Lehman Brothers Holdings plc ("LBH") and Lehman Brothers (PTG) Limited, both of which are in Administration. The Company principally acted to manage the flow of investment funds between these subsidiaries.

The book value of debtors at the date of Administration was \$45m.

### ***Administrators' actions to date***

#### ***Lehman Brothers Holdings Inc. ("LBHI")***

As outlined in earlier reports, in October 2011, the Administrators entered into a settlement agreement with LBHI, in conjunction with other UK affiliates and certain other affiliates previously subject to Chapter 11 proceedings in the USA. Under this agreement, LBUKH's guarantee claim against LBHI was agreed at \$608.9m and its direct claim was agreed at \$10.6k.

During the reporting period, LBUKH received ninth and 10th dividends totalling \$8.1m, bringing the total dividends received from LBHI to circa \$185.4m.

#### ***Other inter-company debts***

Other inter-company debtor realisations in the reporting period include:

- A catch-up dividend from Lehman Brothers Holdings plc ("LBH") of £2k. This related to LBUKH's supplementary claim arising from its settlement of an ordinary unsecured claim of £70k for which LBH was also liable; and
- Other sums received totalling £2k arising from LBUKH's lower value claims admitted in other insolvent estates.

#### ***Distributions to the subordinated creditor***

As previously reported, in late June 2015, LBUKH and LBLIS submitted a joint application seeking directions from the Court to establish how LBUKH should proceed to distribute to its subordinated

creditor in light of the various loan agreements between LBUKH and LBLIS.

The Court's ruling on 13 January 2016 that it would be appropriate for the Administrators to distribute funds to LBLIS under the subordinated loan agreements enabled the Administrators to pay second and third interim cash dividends to LBLIS with a total value equivalent to £111.3m during the reporting period.

Further, as part of the third interim dividend, and with LBLIS's agreement, the Administrators made a distribution in specie of the Company's receivables to LBLIS.

Future dividends from LBUKH's debtors will now be paid to LBLIS.

The majority of the cash in the LBUKH estate has now been distributed. Once the final costs of the Administration have been settled, remaining cash will be distributed to LBLIS by way of a small, final dividend.

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

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

#### ***Tax clearance***

The Administrators have brought all LBUKH's corporate tax returns up to date. Final tax clearance has now been obtained from HM Revenue & Customs ("HMRC"), confirming that no further tax returns are due and that HMRC has no objection to the Company being dissolved.

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## ***Section 3 Statutory and other Information***

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

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*Full name:* Lehman Brothers UK Holdings Limited

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*Trading name:* Lehman Brothers UK Holdings Limited

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*Registered number:* 02074637

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

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*Date of the Administration appointment:* 29 September 2008

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

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

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*Objective being pursued by the Administrators:* Achieving a better result for LBUKH's creditors as a whole than would be likely if LBUKH were wound up (without first being in Administration)

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*Division of the Administrators' responsibilities:* In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by any or all of the Joint Administrators may be done by any one or more of the persons for the time being holding that office.

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

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## **Section 4 Financial Information**

### **Receipts and payments account**

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

#### **Key movements in the period**

- Two cash dividends paid to LBLIS equivalent to £111.3m;
- Two dividends received from LBHI totalling £8.1m;
- Administrators' fees of £144k;
- Corporation tax refund from HMRC of £85k; and
- Interest earned on funds invested of £71k.

Net receipts as at 28 September 2016 equated to £571.8k.

### **Administrators' remuneration**

In June 2013, approval was obtained from LBUKH's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The creditors also resolved that the Administrators may draw their time costs on account from time to time.

To date, the Administrators have drawn remuneration of £1,035,102 plus VAT in respect of time costs incurred from the date of their appointment to 30 June 2016.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 March to 31 August 2016 together with a narrative of the work performed. Time costs for this period total £158,245 plus VAT, comprising 381.45 hours at an average hourly rate of £415.

During the reporting period, remuneration of £143,661 plus VAT has been drawn in relation to time costs incurred between 1 January 2016 and 30 June 2016.

### **Statement of Insolvency Practice 9 ("SIP9")**

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

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

### **Disbursements**

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

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

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

Category 2 disbursements of £20,000 plus VAT have been billed during the reporting period in relation to the ongoing storage of and access to records.

The Administrators have incurred Category 1 disbursements of £2,097 plus VAT, of which £53 were incurred in the reporting period. No Category 1 disbursements were paid during the reporting period.

### **Creditors' rights**

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

[http://www.icaew.com/~/\\_media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx](http://www.icaew.com/~/_media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx)

Creditors can request a paper copy of the above guide, free of charge, by contacting [Lehman.affiliates@uk.pwc.com](mailto:Lehman.affiliates@uk.pwc.com).

# Section 5 Receipts and Payments Account

	GBP Movements			USD Movements		
	28-Sep-16	in Period	28-Mar-16	28-Sep-16	in Period	28-Mar-16
<b>Receipts</b>						
Dividends from LBHI	-	-	-	185,313,703	8,134,375	177,179,328
Dividends from LBH Plc	1,188,503	1,428	1,187,075	-	-	-
Intercompany debtors	112,117	1,629	110,488	-	-	-
Book debts	10,753	-	10,753	-	-	-
Recharge of tax function costs	32,886	-	32,886	-	-	-
Corporation Tax Refunds	91,405	85,000	6,405	-	-	-
Investments & shares	1	1	-	-	-	-
Third Party Funds (Note 4)	300	300	-	-	-	-
Interest	885,627	71,427	814,200	80	80	-
<b>Total Receipts</b>	<b>2,321,592</b>	<b>159,785</b>	<b>2,161,807</b>	<b>185,313,783</b>	<b>8,134,455</b>	<b>177,179,328</b>
<b>Payments</b>						
Legal fees	155,396	18,702	136,694	-	-	-
Joint Administrators' remuneration	1,035,102	143,661	891,441	-	-	-
Joint Administrators' category 1 disbursements	1,618	-	1,618	-	-	-
Joint Administrators' category 2 disbursements	20,000	20,000	-	-	-	-
Pension related legal costs	603,959	-	603,959	-	-	-
Corporation tax	85,000	-	85,000	-	-	-
Payment for tax losses	9,944	-	9,944	-	-	-
Employee costs (Note 2)	25,943	720	25,223	-	-	-
Bank charges	8	-	8	512	160	352
IT costs	5,741	-	5,741	-	-	-
Statutory Advertising	38,523	9,633	28,890	-	-	-
Settlement of late claiming creditor	70,000	-	70,000	-	-	-
Irrecoverable VAT (Note 3)	234,004	38,399	195,605	-	-	-
<b>Total Payments</b>	<b>2,285,238</b>	<b>231,115</b>	<b>2,054,123</b>	<b>512</b>	<b>160</b>	<b>352</b>
<b>Intracompany Transfers</b>						
Payment	-	-	-	(177,177,976)	-	(177,177,976)
Receipt	111,393,112	-	111,393,112	-	-	-
<b>Total receipts less total payments</b>	<b>111,429,466</b>	<b>(71,330)</b>	<b>111,500,796</b>	<b>8,135,295</b>	<b>8,134,295</b>	<b>1,000</b>
<b>Distributions</b>						
First distribution to ordinary unsecured creditors on 4 September 2014 (equivalent to 100p in the £)	5,500,000	-	5,500,000	-	-	-
First distribution to subordinated creditors on 17 February 2015 (equivalent to 0.0047p in the £)	50,000	-	50,000	-	-	-
Second distribution to subordinated creditors on 11 April 2016 (equivalent to 7.7183p in the £)	78,980,716	78,980,716	-	3,266,346	3,266,346	-
Third distribution to subordinated creditors on 25 July 2016 (equivalent to 2.8546p in the £)	26,326,905	26,326,905	-	4,868,949	4,868,949	-
<b>Total</b>	<b>571,845</b>	<b>(105,378,951)</b>	<b>105,950,796</b>	<b>-</b>	<b>(1,000)</b>	<b>1,000</b>
<b>Cash Balances</b>						
HSBC	571,845	(760,335)	1,332,180	-	(1,000)	1,000
Money market deposits (Note 1)	-	(104,618,616)	104,618,616	-	-	-
<b>Total Cash/Movements</b>	<b>571,845</b>	<b>(105,378,951)</b>	<b>105,950,796</b>	<b>-</b>	<b>(1,000)</b>	<b>1,000</b>

## Notes:

- Funds were invested on the money markets in order to accrue interest and to manage risk.
- Quarterly recharge to LBIE for providing Tax services, benefitting creditors through cost savings from the centralisation of services.
- Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- Funds held on account of LBLIS arising from a distribution received by LBUKH post-distribution in specie.
- All of the Company's assets are uncharged, there being no secured creditors.
- The estimated to realise values of assets shown in the directors' statement of affairs do not represent a meaningful comparison with the current position and are therefore excluded.

## Section 6 Joint Administrators' time costs for the period 1 March to 30 August 2016

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	16.95	7,560	42.45	12,329	31.05	7,327	90.45	27,216
Strategy and planning	31.25	24,625	20.20	9,467	32.00	8,762	4.90	1,156	88.35	44,010
Asset Realisations	-	-	-	-	4.20	1,508	-	-	4.20	1,508
Creditors	12.75	10,047	24.30	11,594	30.10	8,158	5.65	1,333	72.80	31,132
Statutory and compliance	1.10	989	39.35	17,712	16.60	4,509	30.75	7,014	87.80	30,224
Tax and VAT	10.20	10,516	20.80	11,513	3.70	1,465	3.15	661	37.85	24,155
<b>Total for the period 1 March 2016 to 31 August 2016</b>	<b>55.30</b>	<b>46,177</b>	<b>121.60</b>	<b>57,846</b>	<b>129.05</b>	<b>36,731</b>	<b>75.50</b>	<b>17,491</b>	<b>381.45</b>	<b>158,245</b>
<b>Average hourly rate for the six month period to 31 August 2016</b>										<b>415</b>

Current charge out rates	Business Recovery Services	Specialist
	Max £/hr	Max £/hr
<b>Grade</b>	<b>From 1 July 2015</b>	<b>From 1 July 2015</b>
Partner	899	1,262
Director	788	1,108
Senior Manager	527	932
Manager	444	680
Senior Associate	371	505
Associate/Support Staff	236	235

The Administrators' remuneration has been fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration. The minimum unit for time charged by the Administrators and their staff is 0.05 of an hour.

Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown give an indication of the maximum rate per hour.

Per the agreement with Lehman Brothers International (Europe) ("LBIE")'s creditors' committee, the LBIE charge-out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge-out rates is effective from 1 July 2015 to 30 June 2017, and in line with other Group affiliates controlled by the Firm's office holders, this approach is also used for LBUKH.

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## ***Narrative of the Joint Administrators' time costs for the period 1 March to 30 August 2016***

### ***Accounting and Treasury - £27,216***

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

### ***Strategy and Planning - £44,010***

- Review of the strategy for the Administration in relation to various matters, regular team meetings to discuss case progression;
- Review and maintenance of financial information;
- Preparation for the third interim dividend to the subordinated creditor and consideration of the steps needed to effect a distribution in specie of receivables to LBLIS;
- Handover of billing processes;
- Planning for Court application for discharge from liability following the Administration ending;
- Debtor strategy review; and
- Liaison with specialist teams.

### ***Asset Realisations - £1,508***

- Review of the assets remaining in the estate; and
- Preparing and submitting an additional claim in the LBH estate in preparation for the assignment of LBUKH's claims to LBLIS.

### ***Creditors and Distributions - £31,132***

- Liaison with the subordinated creditor in relation to a range of issues;
- Preparing and arranging statutory advertising;
- Preparing the deed of assignment as part of the distribution in specie; and
- Calculating and making second and third interim distributions to LBLIS.

### ***Statutory and Compliance - £30,224***

- Preparation of the Administrators' 15th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and the Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparing detailed remuneration summary;
- Preparation of Administrators' time costs for billing purposes;
- Undertaking six monthly case reviews;
- Considering impact of new SIP9 rules on estate and the extent to which they should be applied to statutory reports, and consulting with the subordinated creditor regarding the same;
- Managing information available on website; and
- Maintaining case files and the LBUKH database.

### ***Tax and VAT - £24,155***

- Preparing final corporation tax computation;
- Dealing with tax and VAT queries;
- Preparation and submission of VAT returns; and
- Reviewing and providing input for correspondence with HMRC to seek final tax clearance.

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## ***Relationships***

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

## ***Details of subcontracted work***

Certain centralised services are undertaken on behalf of LBUKH by employees retained by LBIE; this includes the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LBUKH on a time costs basis. In the reporting period, LBUKH has paid £720 in relation to the services detailed below.

<b>Service provided</b>	<b>Name of firm / organisation</b>	<b>Reason selected</b>	<b>Basis of fees</b>
Tax Services	<i>LBIE</i>	<i>Prior/Industry knowledge</i>	<i>Time costs</i>

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

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

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

All invoices from professional firms are supported by a narrative and reviewed before being approved for payment. The Administrators are satisfied that the level of legal and professional costs are appropriate.