



Fifth progress report to members & creditors

19 September 2017

Company LB RE Financing No. 3 Limited - in Liquidation

Registered number 06454161

Registered address PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Type of insolvency Creditors' Voluntary Liquidation

Date of appointment 23 July 2012

Appointees Anthony Victor Lomas, Gillian Eleanor Bruce and Julian Guy Parr

Address PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Dividend prospects	Current estimate p in £	Previous estimate p in £
Unsecured	Uncertain	Uncertain

Please note that the guidance on dividend prospects is indicative only. It should not be used as the sole or principal basis of any bad debt provision decision.



**LB RE Financing No.3 Limited
– in Creditors' Voluntary Liquidation**

**Joint Liquidators' fifth progress report to
members and creditors for year ended 22 July
2017**

19 September 2017

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1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2017

Introduction

This is the fifth annual progress report prepared by the Joint Liquidators ("Liquidators") of LB RE Financing No. 3 Limited ("LBREF3" or the "Company").

This report provides an update on the work that the Liquidators have undertaken and the progress made since their appointment, with particular focus on the progress made in the year ended 22 July 2017 (the "reporting period").

Appointment of Joint Liquidators

On 23 July 2012, LBREF3 moved into Creditors' Voluntary Liquidation following the conclusion of the Administration on the same day. DA Howell, MJA Jervis and AV Lomas were appointed Joint Liquidators.

Upon an application to the High Court of Justice, an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed liquidators and that DA Howell and MJA Jervis cease to be liquidators of the Company.

Asset realisations

The current position with respect to the Company's assets is as follows:

Intercompany balances

(i) Storm Funding Limited

Creditors will recall that in June 2012, LBREF3 submitted a claim against Storm Funding Limited ("Storm") comprising (a) a £6.19m claim in respect of an inter-company balance and (b) a €254.50m (£202.05m) claim in relation to Class A notes held by LBREF3 in a Special Purpose Vehicle known as Saphir 2 ("the Class A notes").

(a) Intercompany balance

In July 2015, Storm admitted LBREF3's £6.19m intercompany balance claim in full. In the reporting period, LBREF3 received an eighth distribution from Storm of £62k, representing 1p in the £. To date, LBREF3 has received £2.517m from Storm in respect of this part of its claim, representing 40.6p in the £.

(b) Class A notes

As stated above, LBREF3 originally submitted a claim of €254.50m against Storm in respect of its Class A notes. After further investigation into this balance, it was established that €22.50m (£17.86m) of the notes had been redeemed in 2008, prior to the Company's insolvency. Consequently, this element of LBREF3's claim was revised down to €232.00m (£184.19m).

Creditors will recall that in the prior period, a settlement was reached in relation to the Class A notes. Under the terms of the settlement, LBREF3's Class A notes claim was admitted for £147.35m, representing 80% of LBREF3's revised claim.

In the reporting period, LBREF3 received dividends totalling £59.82m, representing 40.6p in the £.

The quantum and timing of any future dividends from Storm remain uncertain.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2017

(ii) Lehman Brothers International (Europe)

As previously reported, LBREF3 has received 100 pence in the pound in respect of its admitted claim of £1.78m against Lehman Brothers International (Europe) ("LBIE").

Subject to the outcome of the Waterfall II Application, in which LBIE is seeking guidance from the court as to how statutory interest is to be calculated, it is anticipated that LBREF3 will receive further payments in relation to its entitlement to post-insolvency statutory interest.

Until the Waterfall litigation is completed, or a consensual settlement between the parties to the litigation is otherwise reached, the final outcome for LBREF3 remains uncertain.

Copies of all pertinent documents relating to all Waterfall II applications and any subsequent appeals can be found using this link:

<http://www.pwc.co.uk/business-recovery/administrations/lehman/waterfall-ii-application.jhtml>

Outcome for creditors

All known unsecured creditor claims have been adjudicated, with claims totalling £1.03bn admitted to rank for dividend purposes. There are no secured or preferential creditors.

In the reporting period, £63.74m was distributed to unsecured creditors by way of first and second interim dividends of 5.425p and 0.738p in the £ respectively.

Having now dealt with the substantial issues remaining in the LBREF3 estate, the Liquidators are taking steps to bring the Liquidation to a conclusion. The Liquidators anticipate that a third distribution will be made to unsecured creditors and are currently considering making a distribution in specie of the Company's future receivables so that the Liquidation of LBREF3 can be brought to an end.

Investigations

Nothing has come to the Liquidators' attention during the reporting period to suggest that they need to do any more work in line with their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

Tax

The LBREF3 corporation tax returns for 2016 and the final period to 30 November 2016 were submitted in the period, in conjunction with an application for tax clearance which was granted by HMRC in January 2017.

In the period, tax losses were sold to another group company for c.£1.8m, the consideration being 50% of the tax saved through utilising the losses. Given the significant tax losses available in the Company, a decision was made to keep the estate open to determine whether its losses could be utilised for value by other group companies. This work is continuing.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2017

Receipts and payments account

An account of the receipts and payments in the Liquidation showing movements for the last 12 months to 22 July 2017, together with cumulative transactions since commencement of the Liquidation, is set out in Section 2 of this report.

Liquidators' expenses

As required by Statement of Insolvency Practice 9 ("SIP9"), set out in Section 3 is a statement of expenses incurred by the Liquidators since their appointment, together with an estimate of future expenses.

Liquidators' remuneration

In February 2015, the Liquidators requested and received approval from LBREF3's creditors for the Liquidators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Liquidators were also authorised to draw their remuneration to 30 November 2014 and to draw subsequent remuneration on account of their costs from time to time.

In accordance with SIP9, the following information is provided in Section 4 of this report:

- (i) An analysis of the Liquidators' time costs for the period 1 July 2016 to 30 June 2017, including the cumulative total time costs from the date of the Liquidators' appointment to 30 June 2017; and
- (ii) A summary of the Liquidators' time costs for the reporting period, including the key categories of work undertaken and details of the work undertaken.

In accordance with the resolutions passed by LBREF3's creditors, the Liquidators have drawn remuneration totalling £841,268 plus VAT in respect of time costs incurred to 28 February 2017.

Time costs for the reporting period total £263,476 plus VAT, representing 633.90 hours at an average hourly rate of £416. Details of time costs previously incurred have been provided in earlier reports.

An estimate of the Liquidators' future time costs is set out in Section 5 of this report.

Liquidators' disbursements

The Liquidators 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 Liquidators' expenses policy allows for all properly incurred expenses to be recharged to the Liquidation.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2017

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.

In the year ended 22 July 2017, the Liquidators have incurred Category 1 disbursements of £319 plus VAT, none of which have been billed.

Creditors' rights

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

http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/2015/guide_to_liquidators_fees_oct_2015.ashx

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

Additional information

Any creditor who requires further explanation in relation to any aspect of the Liquidators' progress report may telephone or write to Bryony Ball who will be pleased to deal with such enquiries. However, any request for further information regarding the Liquidators' remuneration or disbursements should be made in writing (Rule 18.9 of the IR 16).

Next report and enquiries

The Liquidators will circulate their next report in approximately 12 months' time or at the end of the Liquidation, whichever is sooner. In the meantime, creditors with queries may contact Bryony Ball on + 44 (0) 20 7213 3731.



Signed

GE Bruce

Joint Liquidator

AV Lomas, GE Bruce and JG Parr have been appointed as Joint Liquidators of LB RE Financing No.3 Limited. AV Lomas, 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 Liquidators 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 Liquidators 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 Liquidation.

2. Receipts and payments account for the year ended 22 July 2017

	22 July 2017 (£)	Movements in Period (£)	22 July 2016 (£)
Receipts (Notes 1 and 2)			
Release of funds from the Administrators	54,918	-	54,918
Interest	13,542	11,990	1,552
Dividends from Storm Funding Limited	62,340,035	59,885,421	2,454,614
Dividends from Lehman Brothers International (Europe)	1,783,695	-	1,783,695
Sale of tax losses	1,785,612	1,785,612	-
Total receipts	65,977,802	61,683,023	4,294,779
Payments			
Legal fees	162,849	103,277	59,572
Employee wages and associated costs	346,799	108,011	238,788
IT costs	5,741	-	5,741
Statutory costs	15,249	15,249	-
Bank charges	25	25	-
Former Joint Administrators' final remuneration	19,761	-	19,761
Joint Liquidators' remuneration (Note 3)	841,268	313,914	527,354
Joint Liquidators' category 1 disbursements	745	-	745
Joint Liquidators' category 2 disbursements	20,000	20,000	-
Insurance	85	-	85
Irrecoverable VAT (Note 4)	211,604	90,488	121,116
Total payments	1,624,126	650,964	973,162
Total receipts less total payments	64,353,676	61,032,059	3,321,617
Distributions			
First distribution to unsecured creditors of 5.425p in the £, declared 7 September 2016	56,114,662	56,114,662	-
Cash distribution made to minority creditor on 14 November 2016 (Note 5)	20,000	20,000	-
Second distribution to unsecured creditors of 0.738p in the £, declared 16 March 2017	7,627,629	7,627,629	-
Total	591,385	(2,730,232)	3,321,617
Cash balances			
HSBC current account	591,385	(2,730,232)	3,321,617
Total cash	591,385	(2,730,232)	3,321,617

Notes:

- 1) Statement of Affairs figures have not been provided as the Liquidation follows an administration.
- 2) All of the Company's assets are uncharged, there being no secured creditors.
- 3) Joint Liquidators' remuneration paid in the reporting period covers the period from 1 March 2016 to 28 February 2017.
- 4) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- 5) A cash distribution of £20,000 was made during the period to LBREF3's minority creditor in lieu of their share of any future distributions made.

3. Joint Liquidators' expenses

The table below provides details of the Liquidators' expenses. Expenses are defined as amounts payable by the Liquidators from the estate; they include the Liquidators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities that may be payable as a Liquidation expense, as 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 in Section 2 of this report, which shows expenses actually paid during the period and the total paid to date. In estimating future expenses, assumptions have been made relevant to the annual run rate where appropriate.

	Brought forward from preceding period	Paid in the period	Cumulative paid	Incurred and not paid	Estimated future	Anticipated total
	£k	£k	£k	£k	£k	£k
Legal fees	60	103	163	13	50	226
Employee wages and associated costs	239	108	347	-	4	351
IT costs	6	-	6	-	-	6
Statutory costs	-	15	15	-	15	30
Former Joint Administrators' final remuneration	20	-	20	-	-	20
Joint Liquidators' remuneration and disbursements	528	334	862	52	150	1,064
Irrecoverable VAT	121	90	211	13	43	267
Total	974	650	1,624	78	262	1,964

Sums have been rounded to the nearest £1k.

An explanation of the key issues remaining is provided in Section 4 of this report.

4. Joint Liquidators' time costs for the period 1 July 2016 to 30 June 2017

Charging and disbursements policy

Time is charged to the Liquidation by reference to the time properly given by the Liquidators and their staff in attending to matters arising in the Liquidation. The minimum unit for time charged by the Liquidators and their staff is 0.05 of an hour.

It is the Liquidators' policy to delegate the routine administration of the Liquidation to junior staff in order to maximise the cost effectiveness of the work performed. These staff have been supervised by senior staff and the Liquidators. Any matter of particular complexity or significance that has required responsibility of an exceptional kind has also been dealt with by senior staff or the Liquidators.

Set out below are the maximum charge-out rates per hour for the Liquidators' staff actually or likely to be involved on the assignments from 1 July 2016. Time is charged by reference to actual work carried out on the assignment. There has been no allocation of any general costs or overhead costs.

Per the agreement with LBIE's creditors' committee, the LBIE charge-out rates were held unchanged from 1 July 2015 to 30 June 2017. An increase of 4% in charge-out rates came into effect on 1 July 2017 and in line with other Group affiliates controlled by the PricewaterhouseCoopers LLP's office holders, this approach has also been used for LBREF3.

Grade	Max £ per hour	
	From 1 July 2015	From 1 July 2017
Partner	899	935
Director	788	820
Senior Manager	527	548
Manager	444	462
Senior Associate	371	386
Associate	236	245

Specialist departments within PricewaterhouseCoopers LLP, such as tax, VAT, property and pensions, sometimes charge a small number of hours should the Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour from 1 July 2015 and 1 July 2017.

Grade	Max £ per hour	
	From 1 July 2015	From 1 July 2017
Partner	1,262	1312
Director	1,108	1152
Senior Manager	932	969
Manager	680	707
Senior Associate	505	525
Associate	235	245

In common with all professional firms, the scale rates used by the Liquidators may increase to cover annual inflationary cost increases.

There is no statutory requirement for the Liquidators to seek approval to draw expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the Liquidators propose to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the Liquidators' own firm), they must be disclosed and be authorised by those responsible for approving their remuneration. Such expenses are known as "Category 2" disbursements. They must be directly

incurred on the case and subject to a reasonable method of calculation and allocation. The Liquidators' expenses policy allows for all properly incurred expenses to be recharged to the case. Category 2 disbursements are approved by the creditors.

4. Joint Liquidators' time costs for the period 1 July 2016 to 30 June 2017

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	2.65	2,088	24.75	10,989	8.60	2,671	27.90	6,584	63.90	22,332
Strategy and planning	42.30	33,443	76.70	35,482	54.15	16,565	28.75	6,785	201.90	92,275
Creditors and distributions	15.80	12,450	9.00	3,996	20.65	6,656	32.65	7,705	78.10	30,807
Statutory and other compliance	6.85	5,398	21.75	9,723	84.85	27,144	67.05	15,824	180.50	58,089
Tax and VAT	34.60	35,096	13.05	6,800	56.70	17,019	5.15	1,058	109.50	59,973
Grand total for the period 1 July 2016 to 30 June 2017										
	102.20	88,475	145.25	66,990	224.95	70,055	161.50	37,956	633.90	263,476
Average hourly rate for the 12 month period to 30 June 2017										416
Cumulative total to 30 June 2017										893,576

Notes:

- (i) The cumulative total refers to the time costs incurred to 30 June 2017, of which £841,268 has been paid to date.

4. Joint Liquidators' time costs for the period 1 July 2016 to 30 June 2017

The following narrative summarises the work undertaken by the Liquidators and their staff during the period.

Accounting and Treasury - £22,332

An essential function for the management of funds held by the Liquidators on behalf of the Company, the Liquidators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments (where applicable) for the benefit of the Company's creditors.

Activities include:

- Monitoring the flow of funds into the bank account;
- Arranging receipts and payments and coding of movements;
- Verifying creditor payment details and processing first and second dividend payments;
- Coding movements in and out of the bank accounts; and
- Reconciling bank accounts for the purposes of statutory reporting.

Strategy and Planning - £92,275

The Liquidators and their staff have invested a large proportion of their time in the planning and delivery of their strategy for the progression of the Liquidation.

Activities include:

- Reviewing and implementing the Liquidation strategy;
- Updating strategy documents;
- Discussions with stakeholders in regards to this strategy;
- Reviewing financial information;
- Finalising matters in relation to the settlement with Storm;
- Liaising with key Lehman staff and legal advisors in respect of case strategy; and
- Regular team meetings to update on case progression.

Creditors and distributions - £30,807

Activities include:

- Updating the estimated outcome statement;
- Preparing and advertising the notice of intended dividend for first and second interim distributions;
- Liaising with the minority creditor to agree a cash distribution in lieu of their share of any future distributions made; and
- Maintaining and updating the creditor claims agreement database.

These activities are in accordance with the Liquidators' statutory duties.

Statutory and Compliance - £58,089

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

- Preparation and circulation of the Liquidators' fourth progress report to creditors;
- Preparation of the Liquidators' six monthly review summary;
- Circulating progress report to creditors and updating the dedicated LBREF3 website with the progress report;
- Preparation of Liquidators' time costs for billing purposes;
- Preparation of receipts and payments account for report to creditors;

4. Joint Liquidators' time costs for the period 1 July 2016 to 30 June 2017

- Preparation of detailed remuneration summary;
- Maintaining case files and the Liquidation database; and
- Statutory filings at Companies House and Court.

Tax and VAT - £59,973

The following tasks were undertaken in accordance with the Liquidators' statutory obligations or internal compliance. In addition, certain tasks were undertaken for the benefit of creditors.

Activities include:

- Discussions regarding tax provision and closure strategy
- Dealing with corporation tax and VAT queries;
- Preparation of 2016 and final period tax computations;
- VAT reconciliation and preparation of VAT returns;
- Deregistration of the company for VAT; and
- Senior Accounting Officer work.

5. Joint Liquidators' estimate of future time costs

The Liquidators continue to actively progress all matters pertaining to the estate. This includes collecting distributions from LBREF3's admitted claims against LBIE and Storm and distributing funds (when possible to do so) to unsecured creditors.

The Liquidators estimate that their future time costs and disbursements to complete the Liquidation will be circa £0.15m, analysed as follows:

	£'000
Accounting and Treasury	30
Strategy and Planning	50
Creditors and distributions	20
Statutory and Compliance/Tax and VAT	50
	<hr/> 150

The above figures assume that:

- The Liquidation will be concluded within the next reporting period.
- Time costs relating to care and maintenance of the case will be incurred at a similar rate to the reporting period; and
- There will be a further distribution to unsecured creditors.

Relationships

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

Details of subcontracted work

Certain centralised services are undertaken on behalf of LBREF3 by employees retained by LBIE and LB SF Warehouse Limited. This includes the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LBREF3 on a time costs basis and are invoiced directly to the estate. The services undertaken by LB SF Warehouse Limited are to assist with the assertion of LBREF3's claim in the Storm estate.

Legal and other professional firms

The Liquidators 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.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services:	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
	<i>Dentons UKMEA LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
Asset realisations:	<i>LB SF Warehouse Limited</i>	<i>Prior/Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Liquidators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment. The Liquidators are satisfied that the level of legal costs are appropriate.