



Third progress report to members & creditors

Private & Confidential

Date 21 September 2015

Company LB RE Financing No.3 Limited

Registered number 06454161

Registered address Lehman Brothers Level 23
25 Canada Square
London
E14 5LQ

Type of insolvency Creditors' Voluntary Liquidation

Date of appointment 23 July 2012

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

Address 7 More London Riverside, London SE1 2RT

Dividend prospects

**Current estimate
p in £**

Uncertain

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

**Joint Liquidators’ third progress report to
members and creditors for year ended 22 July
2015**

21 September 2015

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1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2015

Introduction

In accordance with Rule 4.49C of the Insolvency Rules 1986 ("IR86"), this is the Joint Liquidators' ("Liquidators") third annual progress report to members and all known creditors.

Appointment of Joint Liquidators

On 23 July 2012, LB RE Financing No.3 Limited (the "Company" or "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:

Inter-company balances

(i) Lehman Brothers International (Europe)

Creditors may recall that LBREF3's claim against Lehman Brothers International (Europe) ("LBIE") was admitted at £1.79m. On 29 April 2014, LBIE paid a fourth interim dividend of 7.8 pence in the pound to all unsecured creditors whose claims had been admitted for dividend purposes, bringing the cumulative dividend paid to 100 pence in the pound.

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, inter alia, it is anticipated that LBREF3 will receive further payments in relation to its claim for statutory interest. The first of three hearings, which dealt principally with issues pertaining to the calculation of statutory interest claims and foreign currency conversion claims, took place over 10 days commencing on 16 February 2015. Until the Waterfall litigation is completed, or a consensual settlement is reached, the outcome for LBREF3's creditors remains uncertain.

(ii) Storm Funding Limited

LBREF3 submitted a claim against Storm Funding Limited ("Storm") in June 2012, comprising £6.19m in respect of an inter-company balance and an additional £208.25m in respect of Class A notes held by LBREF3 in a Special Purpose Vehicle known as "Saphir 2".

The Joint Administrators of Storm ("the Storm Administrators") have recently admitted the inter-company balance of £6.19m in full. However, the value attributed to the claim in relation to the Class A Saphir 2 notes is yet to be agreed.

The Liquidators therefore have retained the services of a former Lehman employee to assist them in finalising their strategy and compiling their detailed claim into Storm's administration. This is a complex matter which involves factual, legal, financial and valuation considerations. The Liquidators have had meetings with Storm with a view to conducting a collaborative document exchange exercise in order to streamline and reduce the costs of the investigative process, and the first documents have recently been exchanged. The Liquidators hope to continue this collaborative approach and will report further on this as and when substantial progress has been made.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2015

As at 22 July 2015, the Storm Administrators had declared and paid five interim dividend payments totalling 34.3p in the £. Shortly following the period covered by this report, the Storm Administrators declared and paid a sixth dividend of 3.3 pence in the £, distributing £2.1m to LBREF3 by way of a 'catch-up' dividend and a further £0.2m in respect of the sixth dividend. The quantum and timing of future dividends from Storm remain uncertain.

Receipts and payments account

An account of the Liquidators' receipts and payments for the period from 23 July 2014 to 22 July 2015 is shown in Section 2 of this report.

The receipts and payments account details expenses met from funds in the Liquidation to 22 July 2015.

Outcome for Creditors

The statement of affairs prepared by the Company's directors estimated that the claims of unsecured creditors would be \$1.28bn (£792.14m). To date, the Liquidators have received claims totalling £3.09bn, of which £353.42m has been admitted to rank for dividend purposes. Some of the creditor claims involve complex areas of law and valuation and the Liquidators have investigated whether any commonality of interest exists between the major creditor group which might mitigate the need for detailed investigation and the resultant costs. The Liquidators have been unable to confirm that any such common interest exists.

LBREF3's principle asset is its c£208.25m claim against Storm in respect of Class A Saphir 2 notes. The outcome for creditors ultimately rests on the value attributed to this claim and the level of distributions made by Storm.

There are no secured or preferential creditors.

Professional advisers

The Liquidators have retained the following professional advisers:

Name of firm / organisation	Service provided	Reason selected	Basis of fees
Linklaters LLP	Legal advice	Specialist insolvency and industry knowledge	Time costs
Dentons UKMEA LLP	Legal advice	Specialist insolvency and industry knowledge	Time costs

The Liquidators' choice was based upon their perception of the advisers' experience and ability to perform this type of work, their knowledge of the complexity and nature of the assignment and the basis of the fee arrangement with them. The Liquidators continue to review the fees charged and remain satisfied that they are reasonable in the circumstances of this case. Legal fees paid in the Liquidation to date total £13,191 plus VAT.

Liquidators' remuneration

On 27 February 2015, the Liquidators convened a meeting of creditors of the Company to seek approval for their remuneration until 30 November 2014, and to draw subsequent remuneration on account of their costs from time to time. The creditors gave their approval and remuneration of £268,501 plus VAT has subsequently been drawn in respect of time costs incurred during the 33 month period of the Liquidation up until 31 March 2015.

Attached at Section 3 is a summary of the Liquidators' time costs for the period 1 July 2014 to 30 June 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £310,344 plus VAT, which comprises 681.73 hours at an average hourly rate of £455.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2015

Liquidators' disbursements

(i) Category 1 disbursements

The Liquidators have not incurred any category 1 disbursements during the period from 23 July 2014 to 22 July 2015.

(ii) Category 2 disbursements

The Liquidators have not incurred any category 2 disbursements during the period from 23 July 2014 to 22 July 2015.

Statement of expenses

The following expenses have been incurred and paid during the period of the report:

	Incurred (£)	Paid (£)
Joint Liquidators' time costs	310,344	180,610
Joint Liquidators' disbursements	-	-
Employee costs	26,021	26,021
Legal Fees	59,571	540
	<hr/> 395,936	<hr/> 207,171

Additional information

If any creditor requires further explanation in relation to any aspect of the Liquidators' progress report, then please telephone or write to Jennifer Hills 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 4.49E, IR86).

In addition, should any creditor consider the Liquidators' remuneration and disbursements to be excessive or inappropriate, they have the right to challenge the amounts in accordance with Rule 4.131, IR86.

Creditors' rights

A statement of creditors' rights in relation to the Liquidators' remuneration and expenses pursuant to IR86 is set out at Section 4 of this report.

1. The Joint Liquidators' report to members and creditors for the year ended 22 July 2015

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. If any creditor has any queries in the meantime, please contact Jennifer Hills on + 44 (0) 20 7212 6092.

Signed.....
JG Parr
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 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

	As at 22 July 2015 GBP (£)	Movement in the year GBP (£)	As at 22 July 2014 GBP (£)
Receipts			
Release of funds from the Administrators	54,918	-	54,918
Dividends from LBIE	1,783,695	-	1,783,695
Total Receipts	1,838,613	-	1,838,613
Payments			
Legal fees	13,191	540	12,651
Employee costs	46,339	26,021	20,318
IT costs	5,741	-	5,741
Former Joint Administrators' final remuneration	19,761	-	19,761
Joint Liquidators' remuneration (Note 1)	268,501	268,501	-
Joint Liquidators' category 1 disbursements	146	-	146
Irrecoverable VAT (Note 2)	59,949	53,808	6,141
Total Payments	413,628	348,870	64,758
Net Position	1,424,985	(348,870)	1,773,855
Cash Balances			
HSBC - current account (non-interest bearing)	1,424,985	(348,870)	1,773,855
Total Cash	1,424,985	(348,870)	1,773,855

Notes:

1) Joint Liquidators' remuneration paid in the reporting period covers the period from the commencement of the Liquidation to 31 March 2015.

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

3. Information in support of the Joint Liquidators' time costs from 1 July 2014 to 30 June 2015

Charging and disbursements policy

The time charged to the Liquidation is by reference to the time properly given by the Liquidators and their staff in attending to matters arising. The minimum unit for time charged by the Liquidators and their staff is 0.05 of an hour. However, the minimum unit of time apportioned to LBREF3 by Lehman Brothers Limited ("LBL") and LBIE is 0.01 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 2014. 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.

Grade	Max/£ per Hour
Partner	775
Director	680
Senior manager	525
Manager	444
Senior associate	370
Associate	230

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 2014.

Grade	Max/£ per Hour
Partner	1,075
Director	990
Senior manager	755
Manager	545
Senior Associate	410
Associate / support staff	210

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 and 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.

3. Information in support of the Joint Liquidators' time costs from 1 July 2014 to 30 June 2015

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	1.00	431	13.85	3,788	11.95	2,737	26.80	6,956
Strategy and Planning	63.30	46,755	363.55	183,672	18.95	6,201	18.95	4,340	464.75	240,968
Statutory and Compliance	1.20	961	29.35	13,193	63.90	22,723	57.10	13,076	151.55	49,953
Tax and VAT	0.60	591	1.20	566	15.35	4,447	0.25	57	17.40	5,661
Creditors	-	-	2.20	948	7.40	2,664	3.40	779	13.00	4,391
LBIE Recharges	0.74	492	1.38	474	2.03	533	4.08	918	8.23	2,416
Grand Total	65.84	48,798	398.68	199,284	121.48	40,355	95.73	21,907	681.73	310,344
Average Hourly Rate		741		500		332		229		455

3. Information in support of the Joint Liquidators' time costs from 1 July 2014 to 30 June 2015

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

Accounting and Treasury - £6,956

- Undertaking receipts and payments;
- Processing payments; and
- Preparing bank reconciliations.

Strategy and Planning - £240,968

- Formulating and implementing the Liquidation strategy;
- Liaison with key Lehman staff in relation to substantiating LBREF3's claim against Storm;
- Detailed review and analysis of the Company's records to further the Liquidators' understanding of the Storm claim and its constituent parts;
- Detailed review and analysis of the Company's records in order to consider both the quantum and validity of certain creditor claims;
- Liaison with legal advisors in respect of case strategy, particularly in relation to the approach to the Storm claim and engagement with counter parties.
- Liaison with the Storm Administrators in relation to the admittance of the intercompany claim and provision of further information in support of the claim;
- Consideration of commonality of interest between LBREF3's debtors and creditors and potential impact on strategy; and
- Regular team meetings to update on case progression.

Statutory and Compliance – £49,953

- Preparation of six monthly review summary milestone;
- Preparation and circulation of the Liquidators' second progress report;
- Statutory filings at Companies House and Court; and
- Maintaining the Company's records.

Tax and VAT - £5,661

- Detailed review of LBREF3's tax accounting processes and submission of Senior Accounting Officer certificate to HMRC for FY13 as required under Finance Act 2009;
- Review of 2013 corporation tax computation and return;
- Review of tax provision figures for input into EFO;
- Internal strategy/update meetings regarding status of liquidation companies; and
- VAT compliance work for FY13.

Creditors - £4,391

- Review of claims submitted and liaison with creditors to obtain further information where required;
- Responding to creditor enquiries; and
- Maintaining creditor information.

LBIE Recharges - £2,416

- This is an apportionment of the costs incurred LBIE associated with the liquidation of the company.

4. Statement of creditors' rights

Rule 4.49E - Creditors' and members' request for further information

4.49E(1) If (a) within the period mentioned in paragraph (2) (i) a secured creditor, or (ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors including the creditor in question), or (iii) members of the company in a members' voluntary winding up with at least 5% of the total voting rights of all the members having the right to vote at general meetings of the company, or (b) with the permission of the court upon an application made within the period mentioned in paragraph (2) (i) any unsecured creditor, or (ii) any member of the company in a members' voluntary winding up, makes a request in writing to the liquidator for further information about remuneration or expenses set out in a progress report in accordance with Rule 4.49B(1)(e) or (f) (including by virtue of Rule 4.49C(5)) or in a draft report under Rule 4.49D, the liquidator must, within 14 days of receipt of the request, comply with paragraph (3) except to the extent that the request is in respect of matter in a draft report under Rule 4.49D or a progress report required by Rule 4.108 which (in either case) was previously included in a progress report not required by Rule 4.108.

4.49E(2) The period referred to in paragraph (1)(a) and (b) is (a) 7 business days of receipt (by the last of them in the case of an application by more than one member) of the progress report where it is required by Rule 4.108, and

(b) 21 days of receipt (by the last of them in the case of an application by more than one member) of the report or draft report in any other case.

4.49E(3) The liquidator complies with this paragraph by either (a) providing all of the information asked for, or

(b) so far as the liquidator considers that (i) the time or cost of preparation of the information would be excessive, or (ii) disclosure of the information would be prejudicial to the conduct of the liquidation or might reasonably be expected to lead to violence against any person, or (iii) the liquidator is subject to an obligation of confidentiality in respect of the information, giving reasons for not providing all of the information.

4.49E(4) Any creditor, and any member of the company in a members' voluntary winding up, who need not be the same as the creditors or members who asked for the information, may apply to the court within 21 days of (a) the giving by the liquidator of reasons for not providing all of the information asked for, or (b) the expiry of the 14 days provided for in paragraph (1), and the court may make such order as it thinks just.

4.49E(5) Without prejudice to the generality of paragraph (4), the order of the court under that paragraph may extend the period of 8 weeks or, as the case may be, 4 weeks provided for in Rule 4.131(1B) or 4.148C(2) by such further period as the court thinks just.

4.49E(6) This Rule does not apply where the liquidator is the official receiver.

Rule 4.131 - Creditors' claim that remuneration is or other expenses are excessive

4.131(1) Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the creditors (including that creditor) or the permission of the court, may apply to the court for one or more of the orders in paragraph (4).

4.131(1A) Application may be made on the grounds that (a) the remuneration charged by the liquidator, (b) the basis fixed for the liquidator's remuneration under Rule 4.127, or (c) expenses incurred by the liquidator, is or are, in all the circumstances, excessive or, in the case of an application under sub-paragraph (b), inappropriate.

4.131(1B) The application must, subject to any order of the court under Rule 4.49E(5), be made no later than 8 weeks (or, in a case falling within Rule 4.108, 4 weeks) after receipt by the applicant of the progress report, or the draft report under Rule 4.49D, which first reports the charging of the remuneration or the incurring of the expenses in question ("the relevant report").

4. Statement of creditors' rights

4.131(2) The court may, if it thinks that no sufficient cause is shown for a reduction, dismiss the application; but it shall not do so unless the applicant has had an opportunity to attend the court for a hearing, of which he has been given at least 5 business days' notice but which is without notice to any other party. If the application is not dismissed under this paragraph, the court shall fix a venue for it to be heard, and give notice to the applicant accordingly.

4.131(3) The applicant shall, at least 14 days before the hearing, send to the liquidator a notice stating the venue and accompanied by a copy of the application, and of any evidence which the applicant intends to adduce in support of it.

4.131(4) If the court considers the application to be well-founded, it must make one or more of the following orders

(a) an order reducing the amount of remuneration which the liquidator was entitled to charge; (b) an order fixing the basis of remuneration at a reduced rate or amount; (c) an order changing the basis of remuneration; (d) an order that some or all of the remuneration or expenses in question be treated as not being expenses of the liquidation; (e) an order that the liquidator or the liquidator's personal representative pay to the company the amount of the excess of remuneration or expenses or such part of the excess as the court may specify; and may make any other order that it thinks just; but an order under sub-paragraph (b) or (c) may be made only in respect of periods after the period covered by the relevant report.

4.131(5) Unless the court orders otherwise, the costs of the application shall be paid by the applicant, and are not payable as an expense of the liquidation.