
***LB Holdings
Intermediate 2 Limited
– In Administration***

Joint Administrators' progress
report for the period 14 July 2011 to
13 January 2012

3 February 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the sixth progress report by the Joint Administrators (the "Administrators") of LB Holdings Intermediate 2 Limited ("LBHI2" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 13 January 2012.

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration).

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

Creditors' Committee

No Creditors' Committee was formed as only one nomination was received.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the timing or quantum of the dividend to ordinary unsecured creditors as there are uncertainties regarding both future net realisations and the ultimate quantum of creditors' claims.

As previously advised, the Pensions Regulator listed LBHI2 as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

The Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that a Financial Support Direction should not be issued against LBHI2. The Determination Notice decision has now been taken to the Upper Tribunal of the Pensions Regulator, and the hearing is due to take place in March 2012. As the FSD legal process is ongoing, the Administrators are not certain at this

stage whether LBHI2 will have a liability under an FSD.

Extension of the administration

On 2 November 2011 the High Court of Justice granted an Order to further extend the period of the Administration to 30 November 2013.

Future reports

The Administrators' next progress report to creditors will be sent in approximately six months.

Signed:



DA Howell
Joint Administrator
LB Holdings Intermediate 2 Limited

DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann were appointed as Joint Administrators of LB Holdings Intermediate 2 Limited to manage its affairs, business and property as agents without personal liability. DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

Section 2 Joint Administrators' actions to date

Overview of the Company's business

LBHI2 holds the investment in Lehman Brothers International (Europe) ("LBIE"). In light of the insolvency of LBIE, it is unlikely that LBHI2 will realise any value from its investment in LBIE.

As previously advised, LBHI2's investment in LBIE was principally financed by:

- The issue of \$6.1bn floating rate notes;
- The issue of \$730m of fixed rate notes; and
- A combination of long and short term loan facilities from Lehman Brothers Holdings Plc of which some \$2.2bn remains due.

Given that LBIE is an unlimited company, LBHI2 will ultimately be liable for any shortfall to LBIE's creditors if LBIE enters liquidation.

Administrators' actions

The Administrators have continued to review the tax position of LBHI2 in order to assess the potential value that may be realised through a sale of the tax losses to other Lehman Brothers group companies. In the period covered by this report, £4.8m has been recovered in payment for tax losses.

It is anticipated that LBHI2 will receive a further c. £1.7m from the sale of further tax losses to group companies, however this could take 12 to 18 months.

On 11 October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") which will become operative when LBHI's Plan of Reorganisation, which has been approved by creditors, becomes effective. Pursuant to this agreement LBHI2 had its claim against LBHI agreed at \$2.7m in respect of direct claims and \$302m in respect of guarantee claims.

Consideration has also been given to which exit route may be chosen in order to maximise realisations for creditors.

Receipts and payments

In the six months to 13 January 2012, the Administrators have realised £4.8m in respect of the sale of tax losses mentioned above.

An account of the receipts and payments from the start of the administration is set out in section 5 of this report, together with movements in the period.

Dividend prospects

The Administrators are not yet able to determine the likely quantum and timing of any dividend to ordinary unsecured creditors.

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Court Case 429 of 2009
<i>Full name:</i>	LB Holdings Intermediate 2 Limited
<i>Trading name:</i>	LB Holdings Intermediate 2 Limited
<i>Registered number:</i>	05957878
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09) and AJ Rush (resigned 17/07/09)
<i>Company secretary:</i>	P Dave (resigned 25/01/10) and ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	14 January 2009
<i>Administrators' names and addresses:</i>	DA Howell, AV Lomas, SA Pearson, MJA Jervis and DY Schwarzmann of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
<i>Appointer's name and address:</i>	The directors, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration)
<i>Division of the Administrators' responsibilities:</i>	Statement of powers for the purposes of paragraph 100(2) of schedule B1 to the Insolvency Act 1986. The joint administrators will act jointly and severally so that all functions may be exercised by any or all of them.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2010; 30 November 2011 and most recently 30 November 2013.
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBHI2's net property:</i>	Not applicable as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 24 March 2009, creditors resolved that the Administrators' remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

To date, the Administrators have not drawn any remuneration, as there were previously no funds available in the estate to do so. Details of the time costs incurred from 14 January 2009 to 31 December 2011 are attached at Section 6. The Administrators intend to draw remuneration to date within the next two months.

Receipts and payments account

An account of the receipts and payments in the Administration to 13 January 2012 is set out overleaf.

Cash is not currently held on interest bearing bank accounts. We are in the process of setting up interest bearing accounts for the funds held.

Section 5 Receipts and Payments Account

	As at 13 July 2011 GBP (£)	Movements	As at 13 January 2012 GBP (£)
Receipts			
Loan from LBIE	442	(442)	-
Sale of tax losses	37	4,805,064	4,805,101
Total Receipts	479	4,805,064	4,805,101
Payments			
Net Tax function costs	3	167,551	167,554
Legal Fees	-	12,282	12,282
Gross wages & salaries	-	949	949
Statutory costs	384	-	384
VAT paid	58	994	1,052
Total Payments	445	181,776	182,221
Net Position	34	4,623,288	4,622,880
Cash Balances			
HSBC (non-interest bearing)	34	4,622,846	4,622,880
Total Cash	34	4,622,846	4,622,880

Cash is not currently held on interest bearing bank accounts. We are in the process of setting up interest bearing accounts for the funds held.

Section 6 Joint Administrators' time costs for the period 14 January 2009 to 31 December 2011

Classification of work	Partner/Director		Senior Manager / Manager		Senior Associate		Associate / Support Staff		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Accounting and Treasury	-	-	11.3	7,361	4.5	1,123	17.0	3,181	32.8	11,665
Asset Realisations	5.0	3,925	20.3	7,190	6.6	1,555	36.8	3,024	68.7	15,694
Reporting	1.2	943	40.5	16,673	48.7	14,920	57.3	11,249	147.7	43,785
Statutory and Compliance	2.3	1,723	1.1	438	4.9	1,519	15.3	2,907	23.6	6,587
Strategy and Planning	11.9	9,435	32.1	14,485	32.1	10,162	2.7	536	78.8	34,618
Tax and VAT	1.3	981	2.4	1,468	3.2	949	0.6	76	7.5	3,474
LBL recharges	0.8	426	11.8	4,319	13.9	3,320	12.7	1,354	39.2	9,419
Grand Total	22.5	17,433	119.5	51,934	113.9	33,548	142.4	22,327	398.3	125,242

Please note that Tax function costs, within the R&P account, are in addition to the above.

The Joint Administrators' policy for charging for disbursements is:

	Costs to date (£)
Photocopying is charged at 3p per sheet for creditors and bulk copying	-
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)	-
All other disbursements are charged at cost	2,225
Total	2,225

Charge out rate to year ended 31 December 2011	Business Recovery Services	Specialist*	The Administrators' remuneration has been fixed by reference to the time properly given by the Administrators and their staff in attending to matters arising in the administration. The remuneration is to be paid as and when funds become available at the charge-out rates for the various grades of staff who may be involved in this administration *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. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report. In line with PricewaterhouseCoopers LLP's annual review of charge out rates, a 5% inflationary increase is being applied. This increase has not yet been reflected in the above figures as the requisite approval has not yet been obtained from the creditors' committee of Lehman Brothers International (Europe). If approval is obtained, the increase will be effective from 1 July 2011.
Grade	Max £/hr	Max £/hr	
Partner	800	980	
Director	610	890	
Senior manager	470	830	
Manager	395	605	
Senior Associate	330	330	
Associate / Support Staff	210	195	

Narrative of the Joint Administrators' time costs for the period 14 January 2009 to 31 December 2011

Accounting and treasury - £11,665

- Preparation of receipts and payments account for statutory reporting;
- Preparation of receipts and payments vouchers;
- Reconciliation of bank accounts; and
- Monitoring flow of funds into the bank accounts.

Asset Realisations - £15,694

- Review financial information including statement of affairs;
- Prepare information in order to file claims against affiliate companies; and
- Review evidencing packs to verify claims.

Reporting - £43,785

- Drafting and circulating the Administrators' proposals documents;
- Preparing five 6 monthly Administrators' progress reports;
- Circulating progress report; and
- Statutory filing of reports.

Statutory and compliance - £6,587

- Dealing with statutory issues;
- Review time cost data for accuracy and completeness;
- Undertaking six monthly case reviews;
- Management of case database and file; and
- Maintaining case records.

Strategy and Planning - £34,618

- Review financial information;
- Building and using the Entity Prioritisation Model to review the claims between the UK and US estates, and model the flow of funds around the group;
- Discussions regarding extension versus liquidation benefits;
- Liaise with solicitors and prepare documents in relation to the administration extensions;
- Review of activity on the estate by PwC staff and retained Lehman staff; and
- Review of strategy, to ensure strategy continues to be in line with proposals.

Tax and VAT- £3,474

- Tax planning;
- Work on tax compliance process and progress accounts and tax computation preparation;
- Reviewing historic tax computations to locate losses that could be utilised by group companies; and
- Tax and VAT issues.

LBL recharges – £9,419

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

