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

Joint Administrators' progress
report for the period 14 July 2012 to
13 January 2013

12 February 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth 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 2013.

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.

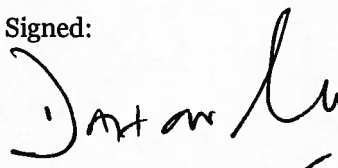
Outcome for creditors

The Administrators expect a distribution to be made to unsecured creditors in due course, however the quantum and timing of this distribution remains uncertain, principally due to three outstanding issues which affect the extent of LBHI2's total assets and liabilities. First a potential pension liability. Secondly, the extent to which LBHI2 may be required to contribute to the debts and liabilities of LBIE, by virtue of LBHI2's position as shareholder of LBIE (an unlimited company). Thirdly, in the event of there being a surplus in LBIE, whether LBHI2's right to prove in the LBIE estate in respect of a subordinated debt claim has priority over any claims for statutory interest otherwise arising. These issues are discussed further in section 2.

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.

DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann 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 Administrations.

Section 2 Joint Administrators' actions to date

Overview of the Company's business

LBHI2 holds the investment in Lehman Brothers International (Europe) ("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.

Administrators' actions

LBHI2's potential pensions liability

As noted in previous reports, the Pensions Regulator ("the 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.

In September 2010 the Pensions Regulator's Determinations Panel (the "Panel") decided that an FSD should be issued against six Lehman group entities. LBHI2 was among 38 companies that the Panel decided should not be issued with an FSD.

The Panel's decision has been referred to the Upper Tribunal, with the Scheme Trustees asking the Upper Tribunal to overturn the Panel's decision and rule that the 38 companies (including LBHI2) should also be subject to an FSD. This means that LBHI2 is still at risk from this potential liability. LBHI2 (together with 36 other affected entities) applied to the Upper Tribunal, seeking an order that the Trustees' referral to the Upper Tribunal relating to a FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. The Trustees and the Regulator opposed the strike-out application, and the hearing took place from 12 to 15 March 2012. Judgment was handed down on 14 June 2012 with the Upper Tribunal declining to strike out the Trustees' referral, meaning that LBHI2 is still at risk of a FSD. The Upper Tribunal's decision has been appealed to the Court of Appeal, and the hearing in the Court of Appeal has now been listed to begin on 29 April 2013.

The Administrators continue to keep the pensions issues under close review and are working to find an interim resolution.

LBHI2's potential liability for the debts and liabilities of LBIE

As sole shareholders of an unlimited company, Lehman Brothers Limited ("LBL") and LBHI2 have a potential liability to contribute to LBIE's assets in an amount sufficient for payment of LBIE's debts and liabilities.

The interplay between this potential liability, and the intercompany claims, is extremely complex.

The ranking of LBHI2's subordinated debt claim

LBHI2 has a subordinated claim against LBIE of £1,254,165,598.48 (c.\$2,225,000,000) pursuant to three subordinated loan agreements entered into on 1 November 2006 between LBHI2 (as lender) and LBIE (as borrower) (the "Subordinated Debt").

If there is a surplus in the LBIE estate, the relative ranking of the Subordinated Debt and any claims for statutory interest otherwise arising, raises extremely complicated legal issues.

The Administrators have retained SNR Denton UK LLP to advise on the issues between LBHI2 and LBIE, as well as Anthony Trace QC and Rosanna Foskett of counsel. The Administrators have been working with the administrators of LBL and LBIE, and their respective legal advisors, to find a resolution to these complex issues.

Tax

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, £1.6m has been recovered in payment for tax losses, bringing the total receipts from sale of tax losses to £9m.

Debtors

As previously reported, the Administrators entered into a settlement agreement with Lehman Brothers

Holdings Inc (“LBHI”) on 11 October 2011. 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.

The first distribution from LBHI was made on 17 April 2012 and LBHI2 received \$13.8m in regard to its agreed claims detailed above. A further distribution from LBHI was made on 1 October 2012 and LBHI2 received \$9.3m. These funds were immediately exchanged to GBP to minimise the foreign exchange risk.

Further dividends from LBHI are expected in accordance with this settlement agreement, however the quantum and timing remain uncertain.

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.

A summary of the Administrators' time costs for the period 14 January 2009 to 30 June 2012 has previously been provided. Attached at section 6 of this report is a summary of the Administrators' time costs incurred from 1 July 2012 to 31 December 2012, presented in accordance with the Statement of Insolvency Practice 9 ("SIP9"), together with a narrative of the work performed.

The SIP9 summary shows that time costs for the period 1 July 2012 to 31 December 2012 are £92,679, representing 193.19 hours at an average hourly rate of £479.73.

To date, the Administrators have drawn remuneration of £233,742, plus VAT in respect of timecosts incurred in the period 14 January 2009 to 31 October 2012.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 13 January 2013 is set out overleaf.

The largest receipts in the period, as discussed in Section 2, were £1.6m in respect of the sale of tax losses and a \$9.3m dividend received from LBHI, equivalent to approximately £5.3m.

Section 5 Receipts and Payments Account

	As at 13 January 2013		Movements		As at 13 July 2012	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
Receipts						
Dividends received	-	23,033,495	-	9,280,753	-	13,752,742
Sale of tax losses	9,031,410	-	1,553,916	-	7,477,494	-
Gross interest received	44,341	-	32,114	-	12,227	-
Total Receipts	9,075,751	23,033,495	1,586,030	9,280,753	7,489,721	13,752,742
Payments						
Net Tax function costs	166,124	-	957	-	165,167	-
Legal Fees	102,291	-	86,723	-	15,568	-
Gross wages & salaries	1,763	-	-	-	1,763	-
Statutory costs	384	-	-	-	384	-
IT Costs	5,741	-	5,741	-	-	-
Bank charges	-	47	-	-	-	47
Office holders' fees	233,742	-	70,519	-	163,223	-
Office holders' disbursements	2,198	-	-	-	2,198	-
VAT paid	61,490	-	31,448	-	30,042	-
Total Payments	573,733	47	195,388	-	378,345	47
Intracompany transfers						
Receipts	14,349,404	-	5,745,988	-	8,603,416	-
Payments	-	(23,031,700)	-	(9,280,000)	-	(13,751,700)
Net Position	22,851,422	1,748	7,136,630	753	15,714,792	995
Cash Balances						
HSBC	122,008	1,748	(640,485)	753	762,493	995
Money markets	22,729,414	-	7,777,115	-	14,952,299	-
Total Cash	22,851,422	1,748	7,136,630	753	15,714,792	995

Note: The total GBP equivalent cash in hand at the exchange rate on 13 January 2013 is £22,852,507. Funds are invested on the money markets to generate interest and reduce risk.

Section 6 Joint Administrators' time costs for the period 1 July 2012 to 31 December 2012

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total Hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.10	84	-	-	5.80	1,467	4.30	946	10.20	2,497
Asset Realisations	1.60	1,341	2.70	1,118	2.50	633	-	-	6.80	3,092
Creditors	-	-	4.30	1,780	-	-	-	-	4.30	1,780
Statutory and Reporting	-	-	3.60	1,490	21.80	5,515	-	-	25.40	7,005
Strategy and Planning	36.90	30,922	95.70	43,270	1.70	430	7.10	1,562	141.40	76,184
Tax and VAT	0.80	822	0.60	311	-	-	0.90	136	2.30	1,269
LBL Recharges	0.05	31	0.89	386	0.93	242	0.92	193	2.79	852
Grand Total	39.45	33,200	107.50	48,355	32.73	8,287	13.22	2,837	193.19	92,679

Grade	Business Recovery Services		Specialist	
	Max £/hr	Services	Max £/hr	Services
Partner	838	838	1,027	
Director	639	639	932	
Senior manager	492	492	869	
Manager	414	414	634	
Senior Associate	346	346	389	
Associate/Support Staff	220	220	204	

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 maximum unit for time charged by the Joint Administrators and their staff is 0.1 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. 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 inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Narrative of the Joint Administrators' time costs for the period 1 July 2012 to 31 December 2012

Accounting and treasury - £2,497

- Preparation of receipt and payment account for statutory reporting;
- Preparation of receipts and payments vouchers;
- Managing investments on the money market;
- Mitigating risk on investments;
- Reconciliation of bank accounts; and
- Monitoring flow of funds into the bank accounts.

Asset Realisations - £3,092

- Ensuring LBHI dividend received; and
- Reviewing intercompany position against affiliate companies.

Creditors - £1,780

- Discussions and correspondence with creditors.

Statutory and reporting - £7,005

- Preparation of Administrators' seventh progress report;
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare detailed remuneration summary;
- Liaise with Administrators on statutory issues;
- Managing LBHI2 Administration website; and
- Maintaining case records and database.

Strategy and Planning - £76,184

- Preparing and attending group pension strategy meetings;
- Discussions regarding strategy for the Administration and updating the strategy documents; and
- Participating in discussions to resolve the pension issue;
- Workstreams relating to the potential liability for the debts and liabilities of LBIE, and the relative ranking of the Subordinate Debt and statutory interest if there is a surplus in LBIE, including discussions within the team, and with solicitors and counsel; and
- Setting, reviewing and discussing strategy on the relationship with LBIE.

Tax and VAT- £1,269

- Tax planning for group companies;
- Dealing with tax and VAT queries; and
- Preparing tax computations.

LBL recharges – £852

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