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

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

9 August 2012

Contents

Section 1	<i>Purpose of the Joint Administrators' progress report</i>	3
Section 2	<i>Joint Administrators' actions to date</i>	4
Section 3	<i>Statutory and other Information</i>	5
Section 4	<i>Financial Information</i>	6
Section 5	<i>Receipts and Payments Account</i>	7
Section 6	<i>Joint Administrators' time costs for the period 1 January 2012 to 30 June 2012</i>	8

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the seventh 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 July 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.

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.

Another Lehman entity, Lehman Brothers Limited, operated the Lehman Brothers Pension Scheme ("Scheme"), which had a deficit on the relevant actuarial basis as at September 2008. The Pensions Regulator has the power to issue Financial Support Directions ("FSDs"). The impact of a FSD is to require target companies within a group to provide financial support to a pension scheme. A FSD can lead to a Contribution Notice, which creates a debt due from the target company to the pension scheme.

In June 2010 LBHI2 was issued with a warning notice that it could be issued with a FSD in relation to the Scheme.

In September 2010 the Pensions Regulator's Determinations Panel decided that a FSD should be issued against each of six Lehman Group entities. LBHI2 was among 38 companies that the Panel decided should not be issued with a 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 a FSD. This means that LBHI2 is still at risk from this potential liability.

The Company (together with 36 of the other affected entities) applied to the Upper Tribunal, seeking an order that the Trustees' referral to the Upper Tribunal should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against LBHI2. A hearing took place in March 2012 and the Upper Tribunal issued its judgment in June 2012, declining to strike out the Trustees' referral. This decision of the Upper Tribunal is being appealed to the Court of Appeal and, in the meantime, the company remains at possible risk of liability under a FSD.

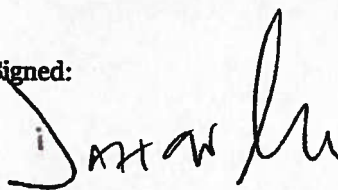
Extension of the administration

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.

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"). 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

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. LBHI2 has received a dividend in this reporting period of \$13.8m (approximately £8.9m), which relates to both the direct and guarantee claims.

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, £2.7m has been recovered in payment for tax losses, bringing the total receipts from sale of tax losses to £7.48m. There was also a rebate of the costs incurred in realising value from the tax losses for a value of £2k.

The Administrators have submitted a proof of debt against LBIE in respect of a small unsecured claim and the subordinated debt of \$2.225bn (£1.420bn). This was in order to meet LBIE's bar date.

Receipts and payments

In the six months to 13 July 2012, the Administrators have realised £2.7m in respect of the sale of tax losses, and \$13.8m in respect of the LBHI claim, as 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.

A summary of the Administrators' time costs for the period 14 January 2009 to 31 December 2011 has previously been provided. Attached at section 6 of this report is a summary of the administrators' time costs incurred from 1 January 2012 to 30 June 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 January 2012 to 30 June 2012 are £50,903, representing 144.0 hours at an average hourly rate of £353.49.

To date, the Administrators have drawn remuneration of £163,223, plus VAT in respect of timecosts incurred in the period 14 January 2009 to 31 May 2012.

An increase to the rates has been applied with effect from 1 January 2012. Details of increased rates are set out in section 6.

Receipts and payments account

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

Surplus funds are being placed on money market deposits to earn interest.

Section 5 Receipts and Payments Account

	As at 13 January 2012		Movements		As at 13 July 2012	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
Receipts						
Dividends received	4,805,101	-	-	13,752,742	-	13,752,742
Sale of tax losses	-	-	2,672,393	-	7,477,494	-
Gross interest received	-	-	12,227	-	12,227	-
Total Receipts	4,805,101	-	2,684,620	13,752,742	7,489,721	13,752,742
Payments						
Net Tax function costs	167,554	-	(2,387)	-	165,167	-
Legal Fees	12,282	-	3,286	-	15,568	-
Gross wages & salaries	949	-	814	-	1,763	-
Statutory costs	384	-	-	-	384	-
Bank charges	-	-	-	47	-	47
Office holders' fees	-	-	163,223	-	163,223	-
Office holders' disbursements	-	-	2,198	-	2,198	-
VAT paid	1,052	-	28,990	-	30,042	-
Total Payments	182,221	-	196,124	47	378,345	47
Intracompany transfers						
Receipts	-	-	8,603,416	-	8,603,416	-
Payments	-	-	-	(13,751,700)	-	(13,751,700)
Net Position	4,622,880	-	11,091,911	995	15,714,791	995
Cash Balances						
HSBC	4,622,880	-	(3,860,388)	-	762,492	995
Money markets	-	-	14,952,299	-	14,952,299	-
Total Cash	4,622,880	-	11,091,911	-	15,714,791	995

Note that cash held at 13 July 2012, based on exchange rates as at 13 July 2012 is £15,716,555

Section 6 Joint Administrators' time costs for the period 1 January 2012 to 30 June 2012

	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Accounting and Treasury	-	-	1.6	662	3.1	784	14.0	3,080	18.7	4,526
Asset Realisations	-	-	7.3	3,131	17.5	6,055	0.1	22	24.9	9,208
Reporting	-	-	6.2	2,645	0.8	277	13.5	2,970	20.5	5,892
Statutory and Compliance	-	-	-	-	-	-	-	-	-	-
Strategy and Planning	7.8	6,536	46.2	19,813	2.4	753	9.0	1,980	65.4	29,082
Tax & VAT	1.3	1,212	0.3	124	0.7	259	0.6	132	2.9	1,727
LBL Recharges	0.1	14	0.5	216	0.7	176	0.3	62	11.6	468
Grand Total	9.2	7,762	62.1	26,591	25.2	8,304	37.5	8,246	144.0	50,903

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:

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 (note there has been a reallocation of expenses and a reduction in the cost to the case compared to the last report)

Total

Costs to date (£)
-
-
2,198
2,198

Current charge out rates Grade	Business Recovery Services		Specialist*	
	Max £/hr	From 1 Jan To 31 Dec 11 12	Max £/hr	From 1 Jan To 31 Dec 11 12
Partner	800	838	980	1,133
Director	610	639	890	1,033
Senior manager	470	492	860	869
Manager	395	414	605	694
Senior Associate	330	346	330	480
Associate / Support Staff	210	220	195	253

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 4.75% inflationary increase is being applied from 1 January 2012.

Narrative of the Joint Administrators' time costs for the period 1 January 2012 to 30 June 2012

Accounting and treasury - £4,526

- 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 and between the bank accounts.

Asset Realisations - £9,208

- Review financial information;
- Prepare information and file claims against affiliate companies; and
- Review evidencing packs to verify claims.

Reporting - £5,892

- Preparing Administrators' progress report and associated data;
- Circulating progress report; and
- Statutory filing of reports.

Strategy and Planning - £29,082

- Preparing and attending group pension strategy meetings;
- Estimating return from claims;
- 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- £1,727

- Tax planning;
- Work on tax compliance process and progress accounts and tax computation preparation; and
- Tax and VAT issues.

LBL recharges – £468

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