
***LB SF No. 1 –
In Administration***

Joint Administrators' progress
report for the period 2 April 2010 to
1 October 2010

27 October 2010

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the fourth progress report by the Joint Administrators (the "Administrators") of LB SF No.1 ("LBSF" 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 1 October 2010.

Objectives of the Administration

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

The specific aims of this Administration are to:

- Protect and control the Company's portfolios of assets; and
- Realise these assets on a managed basis.

Outcome for creditors

Based on the quantum of claims recorded in the Company's records, the Administrators anticipate that there will be funds available to allow a distribution to be made to unsecured creditors.

Paragraph 65(3) of Schedule B1 of the Insolvency Act 1986 ("IA86") states that an administrator cannot make a distribution to creditors unless permission to do so is granted by the Court. The Administrators had intended to make such an application in the second quarter of 2010. However, this was delayed because the Pensions Regulator listed LBSF 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 FSD should not be issued against LBSF. However, as the FSD legal process has not yet been completed, the Administrators are not certain at this stage that LBSF will not have liability under a FSD. The

Administrators therefore need to continue to delay making an application to the Court for permission to make a distribution to creditors.

Given this ongoing process, the timing of the initial dividend to creditors remains uncertain. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

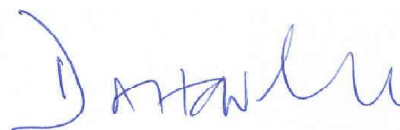
Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011.

Future reports

The Administrators will next report to creditors in approximately six months.

Signed:



DA Howell
Joint Administrator
LB SF No. 1

Section 2 Joint Administrators' actions to date

Overview

LBSF holds a number of investments in subsidiary companies. These companies own a variety of performing, sub-performing and non-performing mortgage and other loan portfolios.

to allow them to pay a dividend to unsecured creditors.

Administrators' actions to date

LBSF had three primary asset groups, which are:-

- Receivables due from other Lehman Group companies

The timing and quantum of any recoveries from intercompany receivables into LBSF remains uncertain. The Administrators have filed claims against certain US group companies in insolvency proceedings in line with the bar date set by those entities. Guarantee claims, where Lehman Brothers Holdings Inc had guaranteed the liabilities of certain Lehman Group companies, have also been filed.

- Equity investments in subsidiaries

The equity investments are unlikely to realise any value.

- A loan portfolio

The loan portfolio was realised during the first six months of the Administration.

Outstanding matters

The most significant assets to be realised are intercompany receivables and these will be realised as and when dividends are paid in those proceedings.

The Administrators are making preparations to pay a dividend to unsecured creditors and, where possible, seeking to agree claims in principle. Once there is certainty that LBSF is not subject to a FSD, the Administrators propose to apply to Court to request an Order to convert the administration of LBSF into a distributing administration in order

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8603 of 2008
<i>Full name:</i>	LB SF No. 1
<i>Trading name:</i>	LB SF No. 1
<i>Registered number:</i>	06001928
<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>	ESE Upton (resigned 25/01/10), P Dave (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>	2 October 2008
<i>Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<i>Appointer's name and address:</i>	The directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any one or more of the persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted a second extension of the Administration to 30 November 2011.
<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 currently expected that creditors will be paid in full, with statutory interest.
<i>Estimated values of the prescribed part and LBSF's net property:</i>	There is no prescribed part
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable
<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

Unsecured creditors previously 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 on account from time to time. The details of remuneration drawn to date have previously been provided and no remuneration has been drawn in the period.

It has subsequently become apparent that the unsecured creditors may be paid in full. Whilst the Administrators have already obtained fee approval from unsecured creditors, for completeness, they will also be requesting that the basis and quantum of their remuneration be approved by the ultimate beneficiary of any funds that will flow to the Company's shareholder, namely Lehman Brothers Holdings Inc.

Receipts and payments account

A receipts and payments account for LBSF, for the period from 2 April 2010 to 1 October 2010 is provided overleaf.

Section 5 Receipts and Payments Account

	GBP (£)	As at 1 October 2010		SEK	As at 1 October 10 TOTAL GBP equivalent £	Movements 2 April 2010 to 1 October 2010 (GBP equivalent) £	As at 1 April 2010 (GBP equivalent) £ RESTATED at 1 October 10 FX	As per previous report, exchange rate at 1 April
		EUR (€)	USD (\$)					As at 1 April 2010 (GBP equivalent) £
Receipts								
Receipts and interest on loan facilities	27,855,340	4,952,567	38,040,207	183,587	56,211,370	-	56,211,370	57,222,927
Bank Interest	234,269	9,934	78,480	-	292,488	68,912	223,576	224,809
Receipts Grand Totals	28,089,609	4,962,501	38,118,687	183,587	56,503,858	68,912	56,434,946	57,447,735
Payments								
Legal fees	212,641	33,460	-	-	241,666	146,072	95,594	96,162
Legal disbursements	88	-	-	-	88	-	88	88
Joint Administrators' remuneration	617,327	-	-	-	617,327	-	617,327	617,327
Joint Administrators' category 1 disbursements	7,948	-	-	-	7,948	-	7,948	7,948
Bank charges	859	142	350	-	1,203	239	964	975
Statutory advertising	1,747	3,210	-	-	4,532	-	4,532	4,586
Tax paid on interest	-	1	-	-	1	-	1	1
VAT paid	129,553	-	-	-	129,553	25,544	104,009	104,009
Payments Grand Totals	970,163	36,813	350	-	1,002,318	171,856	830,463	831,096
Net position	27,119,446	4,925,688	38,118,337	183,587	55,501,540	(102,944)	55,604,483	56,616,639
Intercompany Transfer								
Payment		(4,805,389)		(183,000)	(4,185,700)			
Receipt	4,007,129				4,007,129			
Net Position	31,126,575	120,299	38,118,337	587	55,322,969			
Cash Balances								
Bank of England	131,746				131,746			131,730
HSBC	195,430	120,299	147,018	587	392,760			739,581
Money market deposits	30,799,399		37,971,319		54,798,463			55,745,327
Total Cash	31,126,575	120,299	38,118,337	587	55,322,969			56,616,639
FX	01/04/2010		01/10/2010					
USD	0.6564		0.6320					
EUR	0.8844		0.8675					
SEK	0.0913		0.0940					

