
LB SF No. 1 – In Administration

Joint Administrators' final progress
report

1 October 2013

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Section 1 Purpose of the Joint Administrators' final progress report

Introduction

The Joint Administrators ("the Administrators") are pleased to provide to creditors their final progress report on the Administration of LB SF No.1 ("LBSF" or the "Company") pursuant to Rules 2.47 and 2.110 of the Insolvency Rules 1986 ("IR86").

The Administrators are required to provide a summary of their proposals, which is shown at Section 3. The Administrators are also required to provide certain statutory information pursuant to Rule 2.47(1)(a) to (d) IR86, which is shown in Section 4 to this report.

Details of the steps taken during the Administration, assets still to be realised and the outcome of the Administration are set out below.

Objectives of the Administration

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

The specific aims of this Administration were to:

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

It has been determined that the objective of the administration has been achieved and the Company will be moving in to creditors' voluntary liquidation ("CVL"). This is in accordance with the Administrators' proposals of 24 November 2008, which were approved by creditors on 10 December 2008.

Outcome for creditors

LBSF became a distributing administration on 24 June 2013. On 16 September 2013 the Administrators declared and paid a dividend of 100p/£ plus statutory interest to those unsecured non-preferential creditors whose claims have been admitted.

It has been agreed that the dividend in respect of Lehman Brothers Special Financing Inc's admitted claim will be paid once the Company has been

placed into liquidation. An appropriate reserve has been made to allow a dividend to be paid to Lehman Brothers Special Financing Inc as if the dividend had been paid during the Administration.

Exit route from Administration

The Administration is due to end on 30 November 2013 following extensions granted by the High Court of Justice on the application of the Administrators, the most recent of which was made on 2 November 2011.

LBSF is now in a position to make a distribution to its sole shareholder, LB UK Financing Limited. Since distributions to members cannot be made by an administrator, the Company will now enter into creditors voluntary liquidation, in accordance with the proposals approved by creditors. There having been no alternate nominations, MJA Jervis, DA Howell and AV Lomas will be appointed as joint liquidators.

Discharge

In accordance with the Administrators' proposals, an application will be made to Court to discharge the Administrators from liability following the end of the Administration.

Future reports

The next report will be circulated by the joint liquidators within two months of the first anniversary of their appointment.

Signed:



DA Howell
Joint Administrator
LB SF No. 1

AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of LB SF No.1 to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DA Howell, 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 Administrators 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 Administration.

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, and were funded through intercompany loans from LBSF.

Administrators' actions to date

The Administrators' actions during the period of the Administration to 1 April 2013 are detailed in previous progress reports. These actions are set out in summary below by their asset classes.

LBSF's own loan portfolio

LBSF held several loans to borrowers outside the Lehman Group. These were principally realised in the early part of the Administration for significant value, as follows:

- SEK316m in respect of Swedish mortgage loans, against a book value of SEK490m
- €4.9m in respect of a vendor financing loan of €23m to Patron Eurosail
- £26.6m in respect of a loan to Base Commercial Mortgages. Ownership of this loan is under dispute between LBSF and another Lehman group company. The liquidators will continue to deal with this matter.

A number of the borrowers paid monies into a central Lehman Brothers account shortly after 15 September 2008. The Administrators have finally recovered these amounts, totalling SEK5.9m and €0.2m on behalf of the LBSF estate

LBSF's intercompany balances

LBSF has a number of outstanding debtor balances due from insolvent Lehman group companies. The Administrators have filed all necessary claims, and the liquidators will continue to collect any dividends paid. The most substantial balances due are as follows:

- Lehman Brothers Holdings, Inc ("**LBHI**"). LBSF has a claim admitted into the estate of LBHI of circa \$2.8bn. To date, dividends of \$335m have been received.

- Lehman Commercial Mortgage Conduit Limited ("**LCMC**"). LCMC is a subsidiary of LBSF, and owned a portfolio of loans, which were purchased from Northern Rock with funding from the Company. LBSF's claim against LCMC was admitted for £240,251,420 and a first dividend of £108,113,139 (45p/£) was received in August 2013.
- Cherry Tree Mortgages Limited ("**Cherry Tree**"). Cherry Tree is a subsidiary of LBSF, and an equity release mortgage lender. LBSF's claim against Cherry Tree was admitted for £25,248,531, and a first dividend of £2,272,368 (9p/£) was received in September 2013.
- Zestdew Limited ("**Zestdew**"). Zestdew is a subsidiary of LBSF and owned a portfolio of re-performing consumer debt. LBSF's claim in Zestdew was admitted for £13,841,647, and LBSF received a dividend of £242,229 (1.75p/£) on this claim in September 2013.
- Stepstone Mortgage Funding Limited ("**Stepstone**"). Stepstone is an Irish mortgage lender, and a subsidiary of LBSF. LBSF has supported Stepstone in continuing to trade with a view to enhancing the overall recoveries of the loans LBSF has made to Stepstone. No recoveries have been made to date.

Pensions issues

As explained in the Administrators' previous report to creditors, the Upper Tribunal's decision not to grant the strike-out application, which was brought by LBSF and 36 other entities, was in the process of being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk of a Financial Support Direction ("FSD") being imposed on LBSF remains in place.

The Supreme Court issued a judgment on 24 July 2013 in a case brought by certain other Lehman entities, holding that a liability deriving from a FSD would constitute a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential

additional unsecured debt rather than an administration expense.

The quantum of the reserve required for any possible FSD liability remains uncertain. The Administrators have therefore joined with a number of other Lehman companies in administration in making an application to the High Court for directions on this matter. The court hearing is currently scheduled to take place in October 2013.

During the period covered by this report LB SF joined with the other 36 entities to establish a collective reserve for a possible FSD liability. However, it was not possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it was therefore not brought into full effect.

The Liquidators will continue to monitor the pensions issues closely.

Tax

LBSF has received a Corporation Tax refund of £2.6m, and has received £286k in respect of tax losses sold to Group companies.

LBSF has also purchased Group tax losses of £9.1m to shelter taxable profits.

Other outstanding matters

The most significant assets still to be realised are intercompany receivables due from LBHI and from LBSF's subsidiary companies as set out above.

LBSF will make its principal recoveries from these receivables as and when dividends are paid from those proceedings. The future joint liquidators will continue to collect these dividends.

Section 3 Summary of the Joint Administrators' Proposals

The following proposals for achieving the purposes of the administration were approved by the Company's creditors on 10 December 2008.

1. The Administrators will continue to manage and finance the businesses, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for the Company's creditors as a whole than would be likely if the Company had been immediately liquidated.
2. The Administrators may investigate and if appropriate, pursue any claims that the Company may have under the Companies Act 1985, the Companies Act 2006 or the IA86 or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of the Company or to maximise their realisations or for any other purpose incidental to these proposals.
3. The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement / scheme of arrangement and the costs of so doing be met as a cost of the Administration as part of the Administrators' remuneration.
4. The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Schedule B1 IA86.
5. A creditors' committee will be established for the Company if sufficient creditors are willing to act on the relevant committee. The Administrators propose to seek the election of a creditors' committee and to consult with them from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.
6. The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to the court or seek consent from the appropriate classes of creditors for an extension.
7. The Administrators may use any one or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including:
 - (a) the Administrators may formulate proposals for a scheme of arrangement under Section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors. If the scheme of arrangement is approved and sanctioned by the court, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Schedule B1 IA86, following registration of which the Company will be dissolved three months later, OR
 - (b) the Administrators may place the Company into creditors' voluntary liquidation. In these circumstances, it is proposed that AV Lomas, MJA Jervis and DA Howell be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Schedule B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved, OR
 - (c) The Administrators may formulate proposals for a company voluntary arrangement ("CVA") and put them to a meeting of the Company's creditors and shareholders for approval. If the CVA is

approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Schedule B1 IA86, following registration of which the Company will be dissolved three months later, OR

- (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Schedule B1 IA86, following registration of which the Company will be dissolved three months later. If permission is not granted the Administrators will place the Company into creditors' voluntary liquidation or otherwise act in accordance with any Order of the Court.

8. The Administrators shall be discharged from

liability pursuant to Paragraph 98(1) Schedule B1 IA86 in respect of any action of theirs as Administrators at a time determined by the court.

9. The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge-out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.

Section 4 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>Current Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT (MJA Jervis and DY Schwarzmann ceased to act on 22 March 2013)
<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>	The current Joint Administrators are DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 or 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 an extension of the Administration to 30 November 2013.
<i>Proposed end of the Administration:</i>	creditors' voluntary liquidation
<i>Estimated dividend for unsecured creditors:</i>	100 pence in the £, plus statutory interest
<i>Estimated values of the prescribed part and LBSF's net property:</i>	There is no prescribed part 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 5 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. To date, the Administrators have drawn remuneration of £3,546,906 in respect of time costs up to 30 June 2013.

Creditors have previously been provided with details of the Administrators' time costs for the period to 28 February 2013. Attached at Section 6 is a summary of the Administrators' time costs for 1 March 2013 to 31 August 2013, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed.

Total time costs for 1 March 2013 to 31 August 2013 are £552,613, which comprises 1,052.79 hours at an average hourly rate of £524.90. The Administrators will receive their final remuneration in respect of time costs incurred from 1 July 2013 to the date they cease to be administrators, during the liquidation.

Receipts and payments account

Set out overleaf is a receipts and payments account for LBSF.

During the period the Company received dividends totalling c£110m in respect of its claims in the insolvent estates of three of its subsidiaries, LCMC, Cherry Tree and Zestdew.

Total cash held using the exchange rates as at 25 September 2013 is the GBP equivalent of £357.9m.

Section 6 Receipts and Payments Account

	As at 25 September 2013				As at 1 April 2013				Movements			
	GBP (£)	EUR (€)	USD (\$)	SEK (kr)	GBP (£)	EUR (€)	USD (\$)	SEK (kr)	GBP (£)	EUR (€)	USD (\$)	SEK (kr)
Receipts												
Dividends received from group companies	110,627,736	-	335,501,202	-	-	-	222,446,950	-	110,627,736	-	-	-
Interest received gross	723,329	9,934	517,411	-	655,123	9,934	339,465	-	68,206	-	177,946	-
Receipts and interest on loan facilities	27,869,313	4,952,567	38,040,207	6,071,405	27,855,340	4,952,567	38,040,207	183,587	13,973	-	-	5,887,818
Corporation tax refund	2,600,000	-	-	-	2,600,000	-	-	-	-	-	-	-
Recharge for payment of legal fees	314,571	-	-	-	314,571	-	-	-	-	-	-	-
Tax Function costs	141,028	-	-	-	141,028	-	-	-	-	-	-	-
Sale of tax losses	286,576	-	-	-	260,065	-	-	-	26,511	-	-	-
Employee and Office costs refund	65,639	-	-	-	-	-	-	-	65,639	-	-	-
Sale of shares	4	-	-	-	-	-	-	-	4	-	-	-
Total Receipts	142,628,196	4,962,501	374,058,820	6,071,405	31,826,126	4,962,501	260,826,622	183,587	110,802,068	-	177,946	5,887,818
Payments												
Bank charges	1,220	142	385	52	1,220	142	385	-	-	-	-	52
Purchase of tax losses	9,104,847	-	-	-	9,104,847	-	-	-	-	-	-	-
Professional Fees	623,884	3,210	-	-	5,550	3,210	-	-	618,334	-	-	-
Legal fees	1,693,195	33,460	-	-	980,243	33,460	-	-	712,952	-	-	-
Employee and Office costs	1,966,751	-	-	-	1,939,982	-	-	-	26,769	-	-	-
IT costs	11,741	-	-	-	11,741	-	-	-	-	-	-	-
Storage costs	2,741	-	-	-	2,741	-	-	-	-	-	-	-
Tax function costs	20,029	-	-	-	20,029	-	-	-	-	-	-	-
Loan interest	382,447	-	-	-	-	-	-	-	382,447	-	-	-
Statutory advertising	15,108	-	-	-	1,747	-	-	-	13,361	-	-	-
Other disbursements	88	-	-	-	88	-	-	-	-	-	-	-
Tax deducted on interest	-	1	-	-	-	1	-	-	-	-	-	-
Office holders fees	3,546,906	-	-	-	3,136,248	-	-	-	410,658	-	-	-
Office holders category 1 disbursements	7,997	-	-	-	7,948	-	-	-	49	-	-	-
Irrecoverable VAT	3,062	-	-	-	-	-	-	-	3,062	-	-	-
VAT	900,432	-	-	-	707,153	-	-	-	193,279	-	-	-
Total Payments	18,280,448	36,813	385	52	15,919,537	36,813	385	-	2,360,911	-	-	52
Net Position	124,347,748	4,925,688	374,058,435	6,071,353	15,906,590	4,925,688	260,826,237	183,587	108,441,157	-	177,946	5,887,766
Intracompany Transfer												
Payment	- (4,920,389)	-	-	(6,071,405)	- (4,920,389)	-	-	(183,587)	-	-	-	(5,887,818)
Receipt	4,861,251	-	-	-	4,102,145	-	-	-	759,106	-	-	-
Net Position	129,208,999	5,299	374,058,435	-	20,008,735	5,299	260,826,237	-	109,200,263	-	113,232,198	52
Distribution to unsecured creditors	2,890,840	-	-	-	-	-	-	-	2,890,840	-	-	-
Interest on distribution	1,146,832	-	-	-	-	-	-	-	1,146,832	-	-	-
Net Position	125,171,327	5,299	374,058,435	(52)	20,008,735	5,299	260,826,237	-	105,162,591	-	113,232,198	(52)
Cash Balances												
Bank of England	-	-	-	-	-	-	-	-	-	-	-	-
HSBC (non-interest bearing)	2,711,643	5,299	1,077	(52)	201,343	5,299	30,724	-	2,510,299	-	(29,647)	(52)
Money Markets	122,459,684	-	374,057,358	-	19,807,392	-	260,795,513	-	102,652,292	-	113,261,846	-
Total Cash	125,171,327	5,299	374,058,435	(52)	20,008,735	5,299	260,826,237	-	105,162,591	-	113,232,199	52

Section 7 Joint Administrators' time costs for the period 1 March 2013 to 31 August 2013

Joint administrators' time costs for the period 1 March 2013 to 31 August 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	51.45	21,498	62.60	18,004	61.20	13,672	175.25	53,174
Administration and planning	201.40	149,506	183.70	82,937	2.55	696	3.65	813	391.30	233,952
Realisation of Assets	2.50	1,598	3.20	1,337	-	-	-	-	5.70	2,935
Creditors	-	-	9.50	4,052	-	-	3.20	733	12.70	4,785
Statutory and compliance	3.35	2,628	20.30	10,006	43.00	11,397	20.40	3,830	87.05	27,861
Tax and VAT	104.20	87,499	200.20	120,472	24.90	9,131	26.60	4,608	355.90	221,710
LBIE Recharges	0.62	397	9.54	4,322	6.40	1,726	8.33	1,751	24.89	8,196
Grand Total	312.07	241,628	477.89	244,624	139.45	40,954	123.38	25,407	1,052.79	552,613

Current charge out rates	Business Recovery Services	Specialist	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 0.05 of an hour.
Grade	Max £/hr	Max £/hr	
Partner	838	1,027	* 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 given 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.
Director	639	932	
Senior manager	492	869	
Manager	414	634	
Senior Associate	346	389	
Associate/Support Staff	220	204	

Narrative of the Joint Administrators' time costs for the period 1 March 2013 to 31 August 2013

Accounting and treasury - £53,174

- Managing investments on the money market;
- Mitigating risk on investments;
- Undertaking receipts and payments;
- Preparation of Receipt and Payments accounts; and
- Preparation of bank reconciliations.
-

Administration and planning - £233,952

- Preparing with our legal advisers for the hearing in the Court of Appeal regarding the application to strike out the pension trustees' reference to the Upper Tribunal relating to the possible Financial Support Direction (FSD);
- Working with other stakeholders and our legal advisers on a proposed agreement to facilitate the payment of distributions to creditors and (in due course) the shareholder while the possibility of a FSD against the Company remains in place;
- Preparing for the Upper Tribunal hearing regarding the FSD;
- Discussions regarding strategy for the administration;
- Reviewing financial information;
- Updating strategy documents;
- Discussions regarding flow of funds through the subgroup;
- Review of intercompany relationships;
- Discussion regarding exit strategy and methods to distribute cash to creditors; and
- Liaising with subsidiary companies regarding realisation strategy.

Realisation of assets - £2,935

- Dividend distribution from LCMC, Cherry Tree and Zestdew

Creditors - £4,785

- Updating list of creditor claims; and
- Reviewing creditor claim submissions.

Statutory and compliance – £27,861

- Preparation of the Administrators' ninth progress report;
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Prepare detailed remuneration summary;
- Manage the LBSF database; and
- Liaise with Administrators on statutory issues.

Tax and VAT - £221,710

- Dealing with general tax and VAT queries;
- Preparation of VAT returns;
- Preparation of Corporation Tax returns;
- Reviewing intercompany recharge arrangements; and
- Consideration of tax implications on possible exit strategies.

LBIE recharges - £8,196

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