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

Joint Administrators' progress  
report for the period 2 April to  
1 October 2012

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30 October 2012

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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 SF No.1 ("LBSF" or the "Company").

This report provides an update on the work that 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 2012.

## 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

The Administrators expect to pay a dividend of 100pence in the £ to unsecured creditors. The Administrators are to apply to Court in the next few months for permission to pay a dividend to creditors, though the exact timing of this distribution remains uncertain at this time.

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

LBSF (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 LBSF is still at risk of a FSD. The Upper Tribunal's

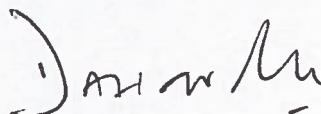
decision has been appealed to the Court of Appeal, and the hearing in the Court of Appeal has now been listed to begin on 29 April 2013.

The Administrators continue to keep the pensions issues under close review.

## Future reports

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

Signed:



DA Howell  
Joint Administrator  
LB SF No. 1

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

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## ***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***

LBSF has one remaining primary asset group, being the receivables due from other Lehman Group companies. Claims have been submitted against Lehman Brothers Holdings Inc ("LBHI") and a number of subsidiary companies including Lehman Commercial Mortgage Conduit Limited and Cherry Tree Mortgages Limited. The majority of LBSF's subsidiaries are also in administration.

On 24 October 2011, the Administrators entered into a settlement agreement with LBHI and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement LBSF had its direct and guarantee claims against LBHI agreed at \$2,875,036,779 and \$353,187 respectively.

LBSF has received two distributions from LBHI totalling \$222,446,950 during the period in respect of its agreed claims detailed above. Further dividends are expected, however, the quantum and timing remain uncertain.

### ***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.

## 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 Schwarzmunn, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
<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, MJA Jervis, SA Pearson and DY Schwarzmunn 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>	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>	100pence in the £
<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.



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## ***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 have drawn remuneration of £1,925,011 in respect of time costs up to 31 May 2012.

Attached at Section 6 is a summary of the Administrators' time costs for 1 March to 31 August 2012, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Creditors have previously been provided with details of the Administrators' time costs for the period to 29 February 2012.

Total time costs for 1 March to 31 August 2012 are £190,398, which comprises 470.46 hours at an average hourly rate of £404.71.

### ***Receipts and payments account***

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

Total cash held using the exchange rates as at 1 October 2012 is the GBP equivalent of £182.2m.

## Section 5 Receipts and Payments Account

	As at 1 Oct 2012			As at 1 April 2012			Movements		
	GBP (£)	EUR (€)	USD (\$)	GBP (£)	EUR (€)	USD (\$)	GBP (£)	EUR (€)	USD (\$)
<b>Receipts</b>									
Dividend from LBHI	-	-	222,446,950	-	-	-	-	-	222,446,950
Interest received gross	624,363	9,934	214,641	402,348	9,934	141,059	222,005	-	73,582
Receipts and interest on loan facilities	27,855,340	4,952,567	38,040,207	27,855,340	4,952,567	38,040,207	-	-	-
Corporation tax refund	2,600,000	-	-	-	-	-	2,600,000	-	-
Recharge for payment of legal fees	253,916	-	-	-	-	-	253,916	-	-
Tax Function costs	141,028	-	-	141,028	-	-	-	-	-
<b>Total Receipts</b>	<b>31,474,637</b>	<b>4,962,501</b>	<b>260,701,798</b>	<b>28,398,716</b>	<b>4,962,501</b>	<b>38,181,266</b>	<b>3,075,921</b>	-	<b>222,520,532</b>
<b>Payments</b>									
Bank charges	1,220	142	385	1,220	142	350	-	-	35
Purchase of tax losses	9,104,847	-	-	-	-	-	9,104,847	-	-
Professional Fees	5,550	3,210	-	2,700	3,210	-	2,850	-	-
Legal fees	840,805	33,460	-	541,592	33,460	-	299,213	-	-
Employee and Office costs	1,826,843	-	-	1,819,218	-	-	7,625	-	-
Storage costs	1,371	-	-	-	-	-	1,371	-	-
Tax function costs	20,029	-	-	-	-	-	20,029	-	-
Statutory advertising	1,747	-	-	1,747	-	-	-	-	-
Other disbursements	88	-	-	88	-	-	-	-	-
Tax deducted on interest	-	1	-	-	1	-	-	-	-
Office holders fees	2,542,361	-	-	617,327	-	-	1,925,054	-	-
Office holders category 1 disbursements	7,948	-	-	7,948	-	-	-	-	-
Contributions to VAT Costs	4,739	-	-	4,783	-	-	(44)	-	-
VAT	570,674	-	-	191,817	-	-	378,857	-	-
<b>Total Payments</b>	<b>14,928,242</b>	<b>36,813</b>	<b>385</b>	<b>3,188,440</b>	<b>36,813</b>	<b>350</b>	<b>11,739,802</b>	-	<b>35</b>
<b>Net Position</b>	<b>16,546,395</b>	<b>4,925,688</b>	<b>260,701,413</b>	<b>25,210,276</b>	<b>4,925,688</b>	<b>38,180,916</b>	<b>(8,663,881)</b>	-	<b>222,520,497</b>
<b>Intracompany Transfer</b>									
<b>Payment</b>	-	(4,920,389)	-	-	(4,920,389)	-	-	-	-
<b>Receipt</b>	<b>4,102,145</b>	-	-	<b>4,102,145</b>	-	-	-	-	-
<b>Net Position</b>	<b>20,648,540</b>	<b>5,299</b>	<b>260,701,413</b>	<b>29,312,421</b>	<b>5,299</b>	<b>38,180,916</b>	<b>(8,663,881)</b>	-	<b>222,520,497</b>
<b>Cash Balances</b>									
Bank of England	5,000	-	-	5,000	-	-	-	-	-
HSBC (non-interest bearing)	470,850	5,299	89,600,322	575,562	5,299	230,432	(104,712)	-	89,369,890
Money Markets	20,172,690	-	171,101,091	28,731,859	-	37,950,484	(8,559,169)	-	133,150,607
<b>Total Cash</b>	<b>20,648,540</b>	<b>5,299</b>	<b>260,701,413</b>	<b>29,312,421</b>	<b>5,299</b>	<b>38,180,916</b>	<b>(8,663,881)</b>	-	<b>222,520,497</b>

Note: The balance of \$89.6m held at HSBC was received on 1<sup>st</sup> October 2012. The funds have subsequently been placed on the money markets.

Based on exchange rates at 28 September 2012, the cash in hand is equivalent to GBP £182,173,438.

# Section 6 Joint Administrators' time costs for the period 1 March to 31 August 2012

Classification of work	Partner/Director	Senior Manager/Manager	Senior Associate	Associate/Support Staff	Total hours
	Hours	Hours	Hours	Hours	Hours
Accounting and Treasury	-	38.45	90.80	55.80	185.05
Administration and Planning	35.10	97.70	0.50	19.10	152.40
Creditors	-	8.70	3.90	0.40	13.00
Statutory and Compliance	-	29.80	0.30	13.30	43.40
Tax and VAT	12.40	41.90	11.40	2.80	68.50
LEL Recharges	1.45	3.06	2.94	0.66	8.11
<b>Grand Total</b>	<b>48.95</b>	<b>219.61</b>	<b>109.84</b>	<b>92.06</b>	<b>470.46</b>

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



## ***Narrative of the Joint Administrators' time costs for the period 1 March to 31 August 2012***

### ***Accounting and treasury - £53,159***

- 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.

\*Interest totalling approx £266k has been earned in the period covered by these timecosts.

### ***Administration and planning - £75,875***

- Preparations for and attending the Upper Tribunal pensions hearing;
- Discussions regarding flow of funds through the subgroup;
- Review of intercompany relationships;
- Discussions regarding strategy for the administration;
- Discussions regarding pensions strategy;
- Discussion regarding exit strategy and methods to distribute cash to creditors; and
- Liaising with subsidiary companies regarding realisation strategy.

### ***Asset Realisations - £5,266***

- Preparing claims against various UK Subsidiaries including Lehman Commercial Mortgage Conduit Ltd and Cherry Tree Mortgages Ltd.

### ***Statutory and other compliance – £15,609***

- Preparation of Administrators' seventh progress report;
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Prepare detailed remuneration summary;
- Analyse timesheets for completeness and accuracy;
- Fee analysis and preparing billing paperwork;
- Manage the LBSF database;
- Preparation of the Administrators six monthly review summary; and
- Liaise with Administrators on statutory issues.

### ***Tax and VAT - £37,742***

- Dealing with general tax and VAT queries;
- Dealing with issues associated with Irish payroll tax and VAT issues raised in conjunction with consultancy services provided to an Irish subsidiary;
- Preparation of VAT returns;
- Preparation of Corporation Tax returns;
- Reviewing intercompany recharge arrangements; and
- Consideration of tax implications on possible exit strategies.

### ***LBL recharges - £2,748***

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