

---

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

Joint Administrators' progress  
report for the period 2 October 2012  
to 1 April 2013

26 April 2013

---

# Contents

<b>Section 1</b>	<b><i>Purpose of the Joint Administrators' progress report</i></b>	<b>3</b>
<b>Section 2</b>	<b><i>Joint Administrators' actions to date</i></b>	<b>5</b>
<b>Section 3</b>	<b><i>Statutory and other Information</i></b>	<b>6</b>
<b>Section 4</b>	<b><i>Financial Information</i></b>	<b>7</b>
<b>Section 5</b>	<b><i>Receipts and Payments Account</i></b>	<b>8</b>
<b>Section 6</b>	<b><i>Joint Administrators' time costs for the period 1 September 2012 to 28 February 2013</i></b>	<b>9</b>

# Section 1 Purpose of the Joint Administrators' progress report

## Introduction

This is the ninth 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 April 2013.

## 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 previously reported that they intend to apply to Court for permission to pay a dividend to creditors. This application has been necessarily delayed due to unresolved pensions issues including those outlined below.

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.

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

The Scheme Trustees have requested that the Upper Tribunal overturns the Panel's decision and rule that the 38 companies (including LBSF) should also be subject to an FSD. LBSF is still, therefore, at risk from this potential liability, but maintains that it (together with 36 other affected entities), should be struck out on the grounds that it is now

no longer possible for the Regulator to impose a FSD against the Company. Following a judgment on 14 June 2012, the Upper Tribunal declined the strike out, meaning that LBSF is still at risk of a FSD. An appeal has been made to the Court of Appeal and the hearing is due to begin on 29 April 2013.

The Administrators continue to monitor the pensions issues closely and are seeking an interim resolution.

## Change of Administrators

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DY Schwarzmann and MJA Jervis cease to be Joint Administrators of the Company.


The Court also ordered that former Joint Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

---

## ***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, 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***

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.

LBHI has previously made two distributions, and LBSF has received \$222.5m. A third dividend was received after the date of this report of \$113m.

Further dividends from LBHI will be received on a six monthly basis.

### ***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

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - case 8603 of 2008
<b>Full name:</b>	LB SF No. 1
<b>Trading name:</b>	LB SF No. 1
<b>Registered number:</b>	06001928
<b>Registered address:</b>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<b>Company directors:</b>	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09) and AJ Rush (resigned 17/07/09)
<b>Company secretary:</b>	ESE Upton (resigned 25/01/10), P Dave (resigned 25/01/10)
<b>Shareholdings held by the directors and secretary:</b>	None of the directors own shares in the Company
<b>Date of the Administration appointment:</b>	2 October 2008
<b>Current Administrators' names and addresses:</b>	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)
<b>Appointer's name and address:</b>	The directors of the Company, 25 Bank Street, London E14 5LE
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<b>Division of the Administrators' responsibilities:</b>	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.
<b>Details of any extensions of the initial period of appointment:</b>	The Court has granted an extension of the Administration to 30 November 2013.
<b>Proposed end of the Administration:</b>	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.
<b>Estimated dividend for unsecured creditors:</b>	100pence in the £
<b>Estimated values of the prescribed part and LBSF's net property:</b>	There is no prescribed part as there is no qualifying floating charge.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	Not applicable as there is no prescribed part.
<b>The European Regulation on Insolvency Proceedings (Council Regulation (EC) No. 1346/2000 of 29 May 2000):</b>	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. To date, the Administrators have drawn remuneration of £3,136,248 in respect of time costs up to 28 February 2013.

Attached at Section 6 is a summary of the Administrators' time costs for 1 September 2012 to 28 February 2013, 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 31 August 2012.

Total time costs for 1 September 2012 to 28 February 2013 are £489,311, which comprises 941.24 hours at an average hourly rate of £519.86.

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

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

The IT costs incurred during the period are LBSF's contribution to the production and running of the Entity Prioritisation Model ("EPM") whose cost was incurred by Lehman Brothers International (Europe). The EPM has been used for considering options in respect of the pensions issue.

Total cash held using the exchange rates as at 1 April 2013 is the GBP equivalent of £191.3m.

## Section 5 Receipts and Payments Account

	As at 1 April 2012				As at 1 Oct 2012				Movements			
	GBP (£)	EUR (€)	USD (\$)	SEK (kr)	GBP (£)	EUR (€)	USD (\$)	SEK (kr)	GBP (£)	EUR (€)	USD (\$)	SEK (kr)
<b>Receipts</b>												
Dividend from LBHI	-	-	222,446,950	-	-	-	222,446,950	-	-	-	-	-
Interest received gross	655,123	9,934	339,485	-	624,353	9,934	214,641	-	30,770	-	124,824	-
Receipts and interest on loan facilities	27,855,340	4,952,567	38,040,207	183,587	27,855,340	4,952,567	38,040,207	183,587	-	-	-	-
Corporation tax refund	2,600,000	-	-	-	2,600,000	-	-	-	-	-	-	-
Recharge for payment of legal fees	314,571	-	-	-	253,918	-	-	-	60,655	-	-	-
Tax Function costs	141,028	-	-	-	141,028	-	-	-	-	-	-	-
Sale of tax losses	280,065	-	-	-	-	-	-	-	280,065	-	-	-
<b>Total Receipts</b>	<b>31,828,127</b>	<b>4,962,501</b>	<b>280,826,822</b>	<b>183,587</b>	<b>31,474,637</b>	<b>4,962,501</b>	<b>260,701,798</b>	<b>183,587</b>	<b>351,490</b>	-	<b>124,824</b>	-
<b>Payments</b>												
Bank charges	1,220	142	385	-	1,220	142	385	-	-	-	-	-
Purchase of tax losses	9,104,847	-	-	-	9,104,847	-	-	-	-	-	-	-
Professional Fees	5,550	3,210	-	-	5,550	3,210	-	-	-	-	-	-
Legal fees	980,243	33,460	-	-	840,805	33,460	-	-	139,438	-	-	-
Employee and Office costs	1,939,882	-	-	-	1,826,843	-	-	-	113,139	-	-	-
IT costs	11,741	-	-	-	-	-	-	-	11,741	-	-	-
Storage costs	2,741	-	-	-	1,371	-	-	-	1,370	-	-	-
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	3,136,248	-	-	-	2,547,120	-	-	-	589,128	-	-	-
Office holders category 1 disbursements	7,948	-	-	-	7,948	-	-	-	-	-	-	-
VAT	707,153	-	-	-	570,674	-	-	-	136,479	-	-	-
<b>Total Payments</b>	<b>15,919,537</b>	<b>38,813</b>	<b>385</b>	-	<b>14,928,242</b>	<b>38,813</b>	<b>385</b>	-	<b>991,295</b>	-	-	-
<b>Net Position</b>	<b>15,908,590</b>	<b>4,925,688</b>	<b>280,826,237</b>	<b>183,587</b>	<b>16,546,395</b>	<b>4,925,688</b>	<b>260,701,413</b>	<b>183,587</b>	<b>(639,805)</b>	-	<b>124,824</b>	-
<b>Intracompany Transfer</b>												
Payment	-	(4,920,389)	-	(183,587)	-	(4,920,389)	-	(183,587)	-	-	-	-
Receipt	4,102,145	-	-	-	4,102,145	-	-	-	-	-	-	-
<b>Net Position</b>	<b>20,008,735</b>	<b>5,299</b>	<b>280,826,237</b>	-	<b>20,648,540</b>	<b>5,299</b>	<b>260,701,413</b>	-	<b>(639,805)</b>	-	<b>124,824</b>	-
<b>Cash Balances</b>												
Bank of England	-	-	-	-	5,000	-	-	-	(5,000)	-	-	-
HSBC (non-interest bearing)	201,343	5,299	30,724	-	470,850	5,299	89,600,322	-	(289,507)	-	(89,569,598)	-
Money Markets	19,807,392	-	260,795,513	-	20,172,690	-	171,101,091	-	(365,288)	-	89,694,422	-
<b>Total Cash</b>	<b>20,008,735</b>	<b>5,299</b>	<b>280,826,237</b>	-	<b>20,648,540</b>	<b>5,299</b>	<b>260,701,413</b>	-	<b>(639,805)</b>	-	<b>124,824</b>	-

Based on exchange rates at 1 April 2013, the cash in hand is equivalent to GBP £191,278,403.



## Section 6 Joint Administrators' time costs for the period 1 September 2012 to 28 February 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.30	251	55.50	23,000	72.45	18,813	37.35	8,217	165.60	50,281
Administration and planning	206.55	152,034	253.10	108,457	3.95	999	-	-	463.60	261,490
Realisation of Assets	-	-	3.50	1,449	3.50	886	-	-	7.00	2,335
Creditors	4.30	3,603	1.00	414	-	-	-	-	5.30	4,017
Statutory and compliance	-	-	9.95	5,146	31.20	8,118	3.95	743	45.10	14,007
Tax and VAT	61.60	57,834	154.75	89,861	2.30	955	21.80	3,520	240.45	152,170
LBL Recharges	0.17	116	5.99	2,824	3.01	932	5.02	1,139	14.19	5,011
<b>Grand Total</b>	<b>272.92</b>	<b>213,838</b>	<b>483.79</b>	<b>231,151</b>	<b>116.41</b>	<b>30,703</b>	<b>68.12</b>	<b>13,619</b>	<b>941.24</b>	<b>489,311</b>

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.  * 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.
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	

## ***Narrative of the Joint Administrators' time costs for the period 1 September 2012 to 28 February 2013***

### ***Accounting and treasury - £50,281***

- 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 £113k has been earned in the period covered by these timecosts.

### ***Administration and planning - £261,490***

- 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.

### ***Asset Realisations - £2,335***

- Dividend distribution from LBHI.

### ***Creditors - £4,017***

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

### ***Statutory and other compliance – £14,007***

- Preparation of the Administrators' eighth 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 - £152,170***

- 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 - £5,011***

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