

LB SF No 1 and LB UK Financing Limited both in Administration

Joint Administrators' progress report for the period
2 October 2008 to 1 April 2009

1 May 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This report has been prepared by the Joint Administrators (the "Administrators") of LB SF No1 ("LBSF") and LB UK Financing Limited ("LBUKF"), referred to collectively as the "Companies," under Rule 2.47(3)(a) of the Insolvency Rules 1986.

Creditors were notified of the Administrators' Proposals for achieving the purpose of these Administrations on 25 November 2008.

The Administrators' Proposals for LBSF and LBUKF were approved without modification on 10 December 2008.

This report provides details of the work undertaken and the progress made during the first six months to 1 April 2009.

Objectives of the Administrations

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

The specific aims of these Administrations are to:

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

Creditors' Committees

There were insufficient nominations to enable the formation of Creditors' Committees in LBSF or LBUKF.

Creditors' meeting by correspondence

In the absence of Creditors' Committees, the Administrators' remuneration is subject to the approval of the general body of creditors.

I am therefore convening a meeting of creditors by correspondence in respect of LBSF to enable the creditors to consider the basis and level of the Administrators' remuneration and Category 2 disbursements. Further details can be found at Section 5 of this report.

It is not the intention of the Administrators to request approval for remuneration in respect of LBUKF at this stage, given the absence of realisations in that estate.

Outcome for unsecured creditors

Based on the quantum of claims recorded in the Companies records, the Administrators anticipate that the unsecured creditors of LBSF will be paid in full with sufficient funds being available to permit a distribution to its shareholders, LB UK Financing Limited and LB UK RE Holdings Limited, both of which are also in Administration.

The amount of any distribution from LBSF to LBUKF is the sole factor determining the level of distribution from LBUKF to its one unsecured creditor, Lehman Brothers Holdings Inc ("LBHI").

Future reports

The next progress report to creditors will be in six months time.

Signed:



DA Howell
Joint Administrator
LB UK Financing Limited
LB SF No 1

Section 2: Background information

Background information

LBUKF is the holding company for LBSF and principally acted to manage the flow of investment funds to LBSF from LBHI, the ultimate parent of the Lehman group of companies (the “Lehman Group”).

On 15 September 2008, LBHI announced that it was preparing to file for Chapter 11 insolvency protection in the USA, precipitating the appointment of Administrators to protect the business and assets of Lehman Brothers International (Europe) (“LBIE”), Lehman Brothers Limited (“LBL”), Lehman Brothers Holdings Plc and LB UK RE Holdings Limited on the same day.

Immediately upon their appointment to the above companies, the Administrators undertook a detailed review of the rest of the UK operations of the Lehman Group.

This review revealed that LBSF had a number of payment obligations to third parties, which it could not meet. Thus, despite appearing to have a solvent balance sheet (principally as a result of its highly capitalised structure), the directors concluded that the company was insolvent.

In addition, a number of investments made by LBSF remained at risk the longer LBSF’s position remained uncertain.

As LBUKF could not repay its liabilities to LBHI, the directors of both LBSF and LBUKF resolved to place them into Administration, as a result of which DA Howell, AV Lomas and D Y Schwarzmenn were appointed Administrators on 2 October 2008.

Section 3: Joint Administrators' actions to date

Overview

As the holding company and funding vehicle for LBSF, LBUKF did not trade in its own right and has no known third party creditors.

LBSF holds investments in a number of subsidiary companies with a variety of performing, sub performing and non performing mortgage and other loan portfolios. In addition it also provided warehouse funding facilities and other commercial loans to a number of connected companies and third party borrowers.

LBUKF and LBSF utilised employees seconded from LBL and principally operated from the Lehman Group's premises at 25 Bank Street, London E14 5LE, England.

Administrators' actions to date

The only asset in LBUKF is its shareholding in LBSF. The quantum and timing of any distribution to LBUKF in respect of this shareholding will depend on the level of recoveries in LBSF and the exit route / distribution strategy chosen by the Administrators.

LBSF has three primary asset groups, namely:

- Receivables due from other Lehman Group companies;
- Equity investments in a number of subsidiary companies; and
- A loan portfolio of its own.

It is not possible at this time to determine with any certainty the quantum of recoveries which LBSF will receive in respect of its intercompany debtor claims. All of the debtor companies concerned are in administration or, as in the case of LBHI, Chapter 11 insolvency protection but the Administrators anticipate that some recoveries will be made from this source.

As most of the LBSF subsidiaries are themselves in administration, it is unlikely that any value will be realised from its equity investments.

In the light of the above, much of the work undertaken since the Administrators' appointment has been in two areas:

- Protecting and realising value from LBSF's own loan portfolio; and
- Protecting LBSF's interests as a creditor of its subsidiaries, (most are already in administration but two companies (known collectively as Stepstone) remain solvent) by supporting their efforts to realise value from their assets.

The Administrators key achievements to date are set out below.

LBSF loan portfolio

- A balance of c.SEK316.1m has been recovered from Bluestep, in respect of loans totalling c.SEK490.8m issued to enable Bluestep to originate mortgages in the Swedish market.
- A balance of c.€4.9m has been recovered in respect of a vendor financing loan of c.€23m issued by LBSF to Patron Eurosail.
- A debt due from Base Commercial Mortgages has been settled recovering c.£26.6m for the benefit of LBSF's creditors.

Stepstone

- The directors of Stepstone have been replaced in order to stabilise the group and protect its portfolio of Irish residential mortgages.
- The Administrators are working with the directors to develop a strategy to maximise the realisable value of the Stepstone assets.
- The Administrators are assisting with Project Eagle, whereby a number of assets within the Lehman Group, including the Stepstone portfolio, were put to the market for sale.

Section 3: Joint Administrators' actions to date

Outstanding matters

The Administrators are now considering the most appropriate exit routes from the Administrations, including the distribution strategies for the Companies and will notify creditors of their proposals in due course.

In the meantime the Administrators will continue to protect the Companies claims and realise assets.

Section 4: Statutory and other information

Court details for the Administrations:	High Court of Justice, Chancery Division, Companies Court Case no: 8603 of 2008	High Court of Justice, Chancery Division, Companies Court Case no: 8604 of 2008
Full names:	LB SF No 1	LB UK Financing Limited
Trading names:	LB SF No 1	LB UK Financing Limited
Registered numbers:	06001928	05729776
Registered address:	25 Bank Street, London E14 5LE England	
Company directors:	ID Gibb, M Jameson and AJ Rush	A Attia, D Gibb, PEJ Hansell, IM Jameson, AJ Rush and PA Sherwood
Company secretary:	ESE Upton	
Shareholdings held by the directors and secretary:	None of the directors own shares in the Companies.	
Date of the Administration appointments:	2 October 2008.	
Administrators' names and address:	DA Howell, D Y Schwarzmman and AV Lomas of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT	
Appointor's name and address:	The directors of the Companies, 25 Bank Street, London E14 5LE England.	
Objective being pursued by the Administrators:	Achieving a better result for creditors as a whole than would be likely if the Companies were wound up (without first being in Administration).	
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administrations are in force, any act required or authorised under any enactment to be done by any 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.	
Proposed end of the Administrations:	The Administrators are not yet in a position to determine the most likely exit route from these Administrations and wish to retain the options available to them.	
Estimated dividend for unsecured creditors:	The Administrators estimate that the unsecured creditors of LBSF will be paid in full. It is too early to estimate the likely dividend for the unsecured creditor of LBUKF.	
Estimated values of the prescribed part and net property:	There is no prescribed part in either LBSF or LBUKF.	
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable.	
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to these Administrations and these are the main proceedings.	

Section 5: Financial information

Statements of Affairs

The directors' Statements of Affairs were received on 23 December 2008 and 6 January 2009 for LBUKF and LBSF respectively.

These Statements have been filed at Companies House and copies are attached to this report at Appendix A.

In preparing the Statements, the directors made various assumptions regarding recoveries from other insolvent Lehman Group entities. The resultant values provide one view of recovery prospects. However, no reliance should be placed upon them in forming any view of the dividend prospects for the Companies creditors.

Administrators' remuneration

By way of context, the manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the "Rules").

There are two alternative bases of determining the remuneration under the Rules, either:

- A percentage of the value of the property with which the Administrator has to deal; or
- By reference to the time properly given by the Insolvency Practitioner and his staff in attending to matters arising in the Administration.

The Rules also provide that in arriving at its decision on remuneration the creditors are required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the Administrators;
- The effectiveness with which the Administrators appear to be carrying out, or have carried out, their duties; and
- The value and nature of the property which the Administrators have to deal with.

Statement of Insolvency Practice No.9 ("SIP 9")

In addition to the Rules, SIP 9, issued by the Joint Insolvency Committee provides guidance to insolvency practitioners and creditors in relation to the remuneration of, *inter alia*, Administrators.

The purpose of SIP 9 is to:

- Ensure that Administrators are familiar with the statutory provisions relating to office holders' remuneration;
- Set out best practice with regard to the observance of the statutory provisions;
- Set out best practice with regard to the provision of information to those responsible for the approval of remuneration to enable them to exercise their rights under the insolvency legislation; and
- Set out best practice with regard to the disclosure and drawing of disbursements.

A copy of SIP 9 is attached at Appendix B to this report.

When seeking agreement for remuneration, the Administrators' are required to provide sufficient supporting information to enable those responsible for approving their remuneration ('the approving body') to form a judgement as to whether the proposed remuneration is reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend upon:

- The nature of the approval being sought;
- The stage during the Administration of the case at which it is being sought; and
- The size and complexity of the case.

Attached at Appendix C to this report is a copy of the Administrators' charging and disbursement recovery policy.

The Administrators' remuneration in respect of LBSF will be calculated based upon the time properly spent on the Administration by the Administrators and the various grades of their staff.

Remuneration review and approval process for LBSF

As the Administrators' remuneration request in respect of LBSF is based on time costs, an analysis of the time spent and the charge-out value is provided at Appendix D of this report.

Section 5: Financial information

This time analysis gives details of the work performed and grade of staff by Activity for monthly periods.

SIP 9 guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Administration and planning
- Investigations
- Realisation of assets
- Trading
- Creditors
- Any other case-specific matters

The analysis that has been provided contains five subdivisions properly reflecting the allocation of time spent.

The following categories are suggested by SIP9 as a basis for analysis by grade of staff:

- Partner
- Manager
- Other senior professionals
- Assistants and support staff

Appendix D includes an analysis of staff allocated between six grades.

Creditors meeting by correspondence

In the absence of a Creditors' Committee, the Administrators' are hereby convening a meeting of creditors by correspondence in respect of LBSF to enable the creditors to consider and approve the basis and level of the Administrators' remuneration and Category 2 disbursements.

There are two resolutions in respect of the Administrators' remuneration for LBSF, detailed on the enclosed Form 2.25B.

Creditors of LBSF wishing to vote should complete and return the enclosed Form 2.25B by post or by facsimile +44 (0) 20 7212 6598.

We have fixed Monday 18 May 2009, as the date by which creditors should return the completed Form 2.25B to vote on the Administrators' fees.

The Administrators' will only draw remuneration when appropriate approval has been given and when funds are available to do so.

Administrators' discharge from liability

Paragraph 98, Schedule B1, of the Insolvency Act 1986 provides that the Administrators' discharge from liability, in respect of any action of theirs as Administrators, shall take effect at a time appointed by resolution of the Creditor's Committee (or if there is no Committee, by resolution of the creditors).

As there is no Creditors' Committee for LBSF, the Administrators have included a third resolution on the enclosed Form 2.25B in respect of the time from which they shall be discharged from liability in respect of LBSF.

Receipts and payments account

Set out in Section 6 of this report is a receipts and payments account for LBSF, for the period from 2 October 2008 to 1 April 2009.

There have been no receipts or payments made by LBUKF in the period covered by this report, albeit a number of small statutory costs have been met by LBSF, on its behalf.

Section 6: Receipts and Payments

LBSF - Receipts and payments for the period from 2 October 2008 to 1 April 2009

				Total US (\$) Equivalent
RECEIPTS	GBP (£)	EUR (€)	SEK	
Receipts on loan facilities	26,625,412	4,500,863	307,377,713	81,600,710
Interest on loan facilities		451,704	8,805,874	1,667,674
Bank interest	131,460	6		189,077
Receipts Grand Totals	26,756,872	4,952,573	316,183,587	83,457,461
PAYMENTS				
Bank Charges	12	40	101	82
Statutory costs		3,210		4,247
Payments Grand Totals	12	3,250	101	4,329
NET POSITION	26,756,860	4,949,323	316,183,486	83,453,132
CASH BALANCES				
Bank of England	26,756,860			38,482,469
HSBC		4,949,323		6,547,589
HSBC International Branch			316,183,486	38,423,074
Total Cash	26,756,860	4,949,323	316,183,486	83,453,132

FX	01/04/2009
GBP	1.44
EUR	1.32
SEK	0.12