
***LB Holdings
Intermediate 2 Limited
– In Administration***

Joint Administrators' progress
report for the period 14 July 2015 to
13 January 2016

9 February 2016

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 14th progress report by the Joint Administrators (the "Administrators") of LB Holdings Intermediate 2 Limited ("LBHI2" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 13 January 2016 (the "reporting period").

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration) and continue to manage the Administration in accordance with the proposals approved by creditors.

Outcome for creditors

The Administrators anticipate that a distribution will be made to unsecured, unsubordinated, non-preferential creditors in due course. However, the recoveries LBHI2 will make from its joint venture are contingent on the outcome of the Waterfall litigation and accordingly the quantum and timing of any distribution remains uncertain.

This matter is discussed further in Section 2 of this report.


Extension of the Administration

On 5 November 2015, the High Court granted an Order to extend the Administration by a further five years to 30 November 2020, following an application made by the Administrators.

Future reports

The Administrators' next progress report to creditors will be sent in approximately six months.

Signed:



DA Howell
Joint Administrator
LB Holdings Intermediate 2 Limited

DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr were appointed as Joint Administrators of LB Holdings Intermediate 2 Limited to manage its affairs, business and property as agents without personal liability. DA Howell, AV Lomas, SA Pearson, 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 bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvencypractitioner-code-of-ethics>.*

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 Administrations.

Section 2 Joint Administrators' actions to date

Overview

LBHI2 holds an investment in LBIE.

As previously advised, LBHI2's investment in LBIE was principally financed by:

- The issue of \$6.1bn of floating rate notes;
- The issue of \$730m of fixed rate notes; and
- A combination of long and short term loan facilities from Lehman Brothers Holdings plc of which some \$2.2bn remains due.

Administrators' actions

LBHI2 claims transaction

In previous reports, the Administrators described the joint venture entered into with Elliot Management Corporation ("EM") and King Street Capital Management, L.P. ("KS") in connection with the claims of LBHI2 in the estate of LBIE ("the Joint Venture").

There is nothing further to report in relation to the Joint Venture during this reporting period given that the outcome largely depends on the result of the ongoing Waterfall and Waterfall II court cases, both of which are described further below.

The quantum and timing of any future returns for LBHI2 via the Joint Venture remains uncertain.

"Waterfall" application

As previously reported, the Administrators applied to the High Court jointly with the Joint Administrators of Lehman Brothers International Europe ("LBIE") and Lehman Brothers Limited ("LBL") for directions in relation to the potential liability of LBHI2 and LBL in respect of shares held in LBIE, an unlimited company, and in relation to subordinated debt owed by LBIE to LBHI2 (the "Waterfall" application).

Full details of the original Waterfall application judgment and the subsequent appeal judgment have been summarised in our earlier reports and can be reviewed at:

www.pwc.co.uk/business-recovery/administrations/lehman/lbhi2-limited-in-administration.jhtml

All the parties in the Waterfall appeal made direct applications to the Supreme Court for permission

to appeal the Court of Appeal judgment. On 4 November 2015, the Supreme Court gave its permission on all counts. A hearing date has not been confirmed but is anticipated to be towards the end of this year or in the first part of next year.

"Waterfall II" application

As previously reported, in order to make the complex litigation more manageable for the court, the Waterfall II application was split into three parts. All three hearings have now taken place with the most recent, Part C, having been heard in November 2015.

The court judgments for Part A & B were handed down in July 2015 and are summarised in the Administrators' previous progress report. The judgment for Part C has not yet been handed down by the court.

Following the Part A & B judgments there were a small number of matters that the court was asked to clarify. The court subsequently agreed to provide judgment on these points after further written and, if necessary, oral submissions.

The submissions have all been filed with the court and we await the clarifying judgment.

Copies of all the pertinent documents relating to both Waterfall applications and any subsequent appeals can be found using this link:

<http://www.pwc.co.uk/business-recovery/administrations/lehman/waterfall-ii-application.jhtml>

Debtors

In October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc. (“LBHI”), in conjunction with other UK affiliates and certain other affiliates previously subject to Chapter 11 proceedings in the USA. Pursuant to this agreement, LBHI2 had its guarantee claim against LBHI agreed at \$302m and its direct claim agreed at \$2.7m.

On 1 October 2015, LBHI2 received an eighth distribution from LBHI of \$5.9m. As at 13 January 2016, LBHI2 has received distributions from LBHI totalling \$88.7m.

These funds were converted into GBP to minimise the foreign exchange risk.

Further dividends from LBHI are expected to be received on a six monthly basis.

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Court Case 429 of 2009
<i>Full name:</i>	LB Holdings Intermediate 2 Limited
<i>Trading name:</i>	LB Holdings Intermediate 2 Limited
<i>Registered number:</i>	05957878
<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>	P Dave (resigned 25/01/10) and ESE Upton (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>	14 January 2009
<i>Administrators' names and addresses:</i>	DA Howell, AV Lomas, JG Parr, SA Pearson and GE Bruce of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. DY Schwarzmann and MJA Jarvis ceased to act as Administrators on 22 March 2013.
<i>Appointer's name and address:</i>	The directors, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration)
<i>Division of the Administrators' responsibilities:</i>	The current Joint Administrators of LBHI2 are AV Lomas, SA Pearson, DA Howell, 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>	A fifth extension has been granted by the High Court of Justice until 30 November 2020.
<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 too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBHI2's net property:</i>	Not applicable 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 4 Financial Information

Receipts and payments account

An account of the receipts and payments in the Administration, showing movements for the six months to 13 January 2016, is set out overleaf.

As part of the LBHI2 claims transaction, LBHI2 provided a share of funding to meet the expenses of the Joint Venture, including costs of the Waterfall appeal and other associated litigation. Legal costs have been split to distinguish between those relating to the Waterfall application and the wider Administration. Under the Joint Venture, LBHI2 will recover all of its legal costs incurred in respect of the Waterfall appeal from 30 September 2013 onwards.

During the period, each of the Joint Venture partners, including LBHI2, have made contributions towards costs of the Joint Venture. LBHI2's contribution was c.£1.4m.

Contributions made by the Joint Venture partners will be repaid in full before any distribution from the JV can be made.

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 24 March 2009, creditors 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 from time to time.

The Administrators acknowledge that, pursuant to the new Statement of Insolvency Practice No.9 ("SIP9") which came into effect on 1 December 2015, practitioners are required to provide the Company's creditors with fee estimates to closure. Due to the nature of the Administration of LBHI2, particularly the uncertainty surrounding the ongoing litigation process, it is not practical for the Administrators to comment on future costs.

Attached at Section 6 is an analysis of the Administrators' time costs for the period 1 June to 30 November 2015. Detailed information relating to time costs for the periods to 30 May 2015 were provided in earlier reports.

The SIP9 summary shows that time costs for the period 1 June to 30 November 2015 are £938,782 representing 1,894.75 hours at an average hourly rate of £495.

To date, the Administrators have drawn remuneration of £4,453,805 plus VAT in respect of timecosts incurred in the period 14 January 2009 to 30 November 2015.

Section 5 Receipts and Payments Account

	GBP			USD		
	As at 13-Jan-16	Movements In Period	As at 14-Jul-15	As at 13-Jan-16	Movements In Period	As at 14-Jul-15
Receipts						
Dividends received	-	-	-	88,694,643	5,896,873	82,797,770
Sale of subordinated debt and senior claims in LBIE	649,992,000	-	649,992,000	-	-	-
Joint Venture contribution to Waterfall costs	2,728,892	-	2,728,892	-	-	-
Sale of tax losses	9,032,513	-	9,032,513	-	-	-
Gross interest received	5,182,152	1,577,505	3,604,647	-	-	-
Total Receipts	666,935,557	1,577,505	665,358,052	88,694,643	5,896,873	82,797,770
Payments						
Net Tax function costs	100,907	-	100,907	-	-	-
Legal Fees and disbursements	5,325,842	295,344	5,030,498	-	-	-
Legal Fees and disbursement relating to Waterfall applications	2,570,508	71,361	2,499,147	-	-	-
Recharge of pension related legal costs to LBUKF	56,485	-	56,485	-	-	-
Loans and advances to Joint Venture	6,405,775	1,448,739	4,957,036	-	-	-
Gross wages & salaries	1,561	(202)	1,763	-	-	-
Statutory costs	384	-	384	-	-	-
IT Costs	5,741	-	5,741	-	-	-
Bank charges	-	-	-	352	75	277
Office holders' fees	4,453,805	916,836	3,536,969	-	-	-
Office holders' disbursements	34,223	-	34,223	-	-	-
Irrecoverable VAT	1 2,363,394	256,482	2,106,912	-	-	-
Total Payments	21,318,625	2,988,560	18,330,065	352	75	277
Intracompany transfers						
Receipts	55,759,598	3,836,822	51,922,776	-	-	-
Payments	-	-	-	88,693,291	5,897,578	82,795,713
Net Position	701,376,530	2,425,767	698,950,763	1,000	780	1,780
Cash Balances						
HSBC	4,854,892	47,900	4,806,992	1,000	780	1,780
Money markets	2 696,521,638	2,377,867	694,143,771	-	-	-
Total Cash	701,376,530	2,425,767	698,950,763	1,000	780	1,780

Notes:

- 1) Due to the nature of the Company's former business, it is not able to recover input VAT on its costs.
- 2) Funds are invested on the money markets to generate interest and reduce risk.

Section 6 Joint Administrators' time costs for the period 1 June to 30 November 2015

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.50	338	179.55	91,769	260.65	75,381	33.55	7,753	474.25	175,241
Strategy and Planning	369.60	311,546	742.20	339,494	81.65	20,821	4.15	913	1,197.60	672,774
Statutory and Compliance	3.40	2,713	12.80	5,804	51.90	14,658	27.75	6,520	95.85	29,695
Tax and VAT	14.40	14,482	54.85	30,658	13.90	5,055	18.65	3,473	101.80	53,668
LBI recharges	1.01	678	1.64	695	19.63	5,367	2.97	664	25.25	7,404
Grand Total	388.91	329,757	991.04	468,420	427.73	121,282	87.07	19,323	1,894.75	938,782
Average Hourly Rate		848		473		284		222		495

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 minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
	Max £/hr		Max £/hr		
Grade	From 1 January 2015	From 1 July 2015	From 1 January 2015	From 1 July 2015	* 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.
Partner	873	899	1,225	1,262	
Director	765	788	1,076	1,108	
Senior manager	512	527	905	932	
Manager	431	444	660	680	
Senior Associate	360	271	490	505	
Associate/Support Staff	229	236	229	235	

Summary of the Joint Administrators' time costs for the period 1 June to 30 November 2015

Accounting and Treasury - £175,241

- Analysing counterparties rates;
- Actively managing investments on the money market including mitigating risk on investments;
- Due consideration of best strategy for dealing with investments;
- Reconciling bank accounts for the purposes of statutory reporting;
- Arranging receipts and payments of funds and coding of movements; and
- Monitoring flow of funds into the bank accounts.

Strategy and Planning - £672,774

As well as discussions regarding strategy for the wider Administration and updating of strategy documentation, a significant amount of time was incurred dealing both with various matters arising in connection with the Wentworth Joint Venture and with the Waterfall court proceedings. This included:

- Meetings and correspondence with tax and legal advisors, Elliott and KS, in respect of the Joint Venture;
- Extensive correspondence with relevant parties regarding negotiations and finalisation of additional Future Claim Agreements;
- Preparation for the Waterfall appeal including submission of the Supreme Court application;
- Development of strategy, arguments, position papers and skeletons for the Waterfall II C application and attendance at the Part C hearing;
- Assisting with identification of possible Experts for use in the Waterfall II application and reviewing Expert reports;
- Review of the Part A & B judgments and development of appeal strategy;
- Assistance with the strategy for and development of position papers/skeletons for the consequential submissions on Parts A & B;
- Development of strategy, arguments, position papers and skeletons for the Part A & B appeals;
- Setting, reviewing and discussing strategy for the Joint Venture with the Joint Venture Partners and LBHI;
- Meeting with LBIE for updates and discussing strategy with the Joint Venture partners;
- Liaison with our nominated director for the Luxembourg Special Purpose Vehicles and their appointed counsel;
- Attendance at board meetings to represent LBHI2 as corporate director of a number of companies in the Joint Venture;
- Dealing with administrative issues supporting the Joint Venture structure;
- Reviewing financial information from the Joint Venture; and
- Preparing financial models to consider possible outcomes and assist with strategy.

Statutory and Compliance - £29,695

- Preparation of the Administrators' 13th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparing detailed remuneration summary;
- Preparation of the Administrators' six monthly review summary;
- Liaising with Administrators on statutory issues;
- Managing information available on website; and
- Maintaining case files and the LBHI2 database.

Tax and VAT- £53,668

- Preparing tax computations;
- Dealing with tax and VAT queries;
- Preparation of VAT returns;
- Reviewing and providing input for correspondence with HMRC; and
- Corporation tax and VAT compliance.

LBIE Recharges – £7,404

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