

LB UK RE Holdings Limited – In Administration

Joint Administrators' progress report for the period 15
March 2009 to 14 September 2009

13 October 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report by the Joint Administrators of LB UK RE Holdings Limited ("LB UK RE" or the "Company").

Creditors will have received the Joint Administrators' (the "Administrators") proposals dated 4 November 2008 which were approved at a meeting of creditors held on 20 November 2008. Creditors will also have received the Administrators' first progress report dated 9 April 2009.

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 14 September 2009.

Objective of the administration

The Administrators are pursuing the objective of achieving a better result for LB UK RE's creditors as a whole than would be likely if LB UK RE were wound up (without first being in administration).

The specific aims of this administration are to:

- protect and control LB UK RE's portfolio of assets; and
- realise these assets, including cash, loan portfolios and property investments, on a managed basis.

Creditors' Committee

A Creditors' Committee was formally constituted on 29 January 2009 and has the following members:

1. Lehman Brothers Holdings Inc ("LBHI")
2. Reed Smith Richards Butler LLP
3. Eldon Street Holdings Limited – in administration
4. Lehman Brothers Europe ("LBEL") – in administration
5. Lehman Brothers Limited ("LBL") – in administration

The Administrators are consulting with the Creditors' Committee to discuss significant issues and outline key decisions.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to creditors as there are material uncertainties regarding future realisations and the final level of creditors' claims.

The Administrators will continue to manage the administration in accordance with the proposals approved by creditors and in consultation with the Creditors' Committee.

Until there is more certainty regarding the dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Joint Administrators, please do so by completing and returning the attached statement of claim form.

Extension of the administration

On the application of the Administrators the High Court has made an Order extending the period of the administration to 30 November 2011.

Future reports

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



D Y Schwarzmann
Joint Administrator
LB UK RE Holdings Limited

Section 2: Joint Administrators' actions to date

Business Activities

The principal activity of LB UK RE was the management of investments in portfolios of performing, sub-performing and non-performing loans, and in real estate.

LB UK RE utilised employees seconded from LBL and operated from the Lehman Group's premises at 25 Bank Street, London E14 5LE.

Summary of actions taken to date

The Administrators have continued with the strategy in their proposals, approved by creditors on 21 November 2008. The Administrators have focused on:

- protecting and managing LB UK RE's assets;
and
- realising these assets in an orderly manner.

The following sections summarise the work that has been carried out by the Administrators and their staff in respect of LB UK RE's most significant assets.

Section 2.1: Loan portfolios

Initial strategy

Since their appointment the Administrators have:

- developed a comprehensive understanding of LB UK RE's performing, sub-performing and non-performing loans ("SNPL") portfolios;
- sought to put in place the necessary processes and resources infrastructure to manage the SNPL portfolios on a day-to-day basis in the context of the administration; and
- developed and implemented a strategy to maximise realisations from the SNPL portfolios.

In implementing their strategy the Administrators had to overcome significant issues. For example, the Administrators and their legal advisors had to assert their rights over LB UK RE's assets in territories that were not familiar with the process and implications of administration.

Progress to date

The Administrators have:

- continued to pro-actively manage the SNPL portfolios, working closely with and directing the activities of servicers and other relevant parties, to ensure that collections are made in a timely and cost efficient manner;
- worked closely with key Lehman's staff;
- established reporting frameworks to manage and monitor SNPL portfolio collections; and
- secured collections from the SNPL portfolios during the period of \$57.9m.

A summary, by country, is given below of the work undertaken on the portfolios.

Portugal

The Administrators have:

- conducted a detailed review of the local asset valuations in Portugal;
- agreed the terms by which the Portuguese portfolio will be managed by a Lehman owned asset management company;

- secured the services of key Portuguese staff at the local servicing platform, Whitestar, to assist in collecting the Portuguese portfolios;
- liaised closely with staff in Portugal to ensure that shareholder obligations have been met in relation to the Portuguese subsidiaries;
- finalised the purchase of a Portuguese unsecured loan portfolio which had been disrupted by LB UK RE's insolvency and which is expected to deliver significant incremental value to LB UK RE's creditors; and
- negotiated the return of a deposit for a loan portfolio that was in the process of being purchased pre-administration resulting in a recovery of over €500k.

Germany

The Administrators have:

- conducted a detailed review of the underlying assets in the portfolio to assist with developing a revised business plan;
- conducted a detailed review of the complex securitisation structure underlying the portfolio and having considered its impact on the portfolio, adapted the management and control of the winding down accordingly;
- worked closely with key stakeholders, including the other non-Lehman note holder, to ensure that portfolio collections continue to be made efficiently;
- initiated a review and re-negotiation of the terms of the servicing agreement with the aim of improving the servicer's incentive for accelerating collections in an appropriate and controlled manner; and
- resolved a number of disputes over unpaid invoices arising from a pre-administration securitisation transaction.

Poland

The Administrators have:

- initiated discussions with the Polish Regulator to seek to overcome local restrictions in relation to disclosure of borrower data. At present these restrictions

prevent any potential sale strategy for this portfolio;

- resolved various disputes and issues in relation to the local service provider and stabilising this relationship; and
- re-established monthly collections at acceptable levels.

Other portfolios

The Administrators have:

- Spanish portfolio – re-established governance over the solvent Lehman's entity that owns the portfolios and implemented control processes with the local loan servicer; and
- Belgian portfolio – agreed a settlement in relation to one of the major outstanding receivables and, with local legal support, collected the sum of €1.1m.

Future strategy

The Administrators will continue to:

- finalise contractual arrangements with the asset management company appointed to oversee the Portuguese portfolios and Whitestar;
- pro-actively monitor SNPL portfolio performance for the Portuguese, German, Polish and Spanish portfolios;
- periodically review SNPL portfolio strategies in the light of collections performance and local developments in each case;
- renegotiate the servicing agreements with the German and Spanish loan servicers to incentivise the servicers to maximise collections on the portfolios; and
- pursue all remaining residual collections outstanding from the Belgian portfolio.

Section 2.2: Real estate investments

Initial strategy

Since their appointment the Administrators have:

- developed a comprehensive understanding of LB UK RE's real estate investment portfolio with the assistance of Lehman Group employees and Joint Venture ("JV") partners;
- engaged with JV partners and senior lenders to understand and manage potential defaults or breaches of covenant;
- put in place the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis; and
- developed and implemented a strategy to maximise realisations from the real estate investment portfolio.

Progress to date

The Administrators have:

- worked with and managed JV partners, local asset managers and letting agents to formulate property development, improvements and letting strategies;
- successfully negotiated with various JV partners, senior lenders and suppliers to stabilise the investments and their value, including:
 - waiving Lehman's insolvency event of default;
 - varying loan terms;
 - delaying enforcement of loans to allow for an orderly asset sale;
 - reducing the level of suppliers' fees; and
 - exchanging parental company guarantees for individual assets.
- formulated exit strategies for each real estate investment in order to maximise realisations over a period of years;
- realised £4.9m from the sales of investments, redemption of loans and distributions from subsidiaries; and
- identified buyers for assets with a total value of €50.6m.

Future strategy

The Administrators will continue to:

- work with and manage JV partners, local asset managers and letting agents to improve the performance of the assets;
- negotiate with JV partners, senior lenders and suppliers to stabilise the investments and their value; and
- market assets when realisations can be maximised, being mindful of holding costs.

Section 2.3: Principal investments

Initial strategy

Immediately on their appointment, the Administrators have worked closely with Lehman Group employees to:

- understand the legal and beneficial ownership structures of these investments; and
- formulate strategies for each investment, mindful of the prevailing market conditions.

Progress to date

The Administrators have made significant realisations in the following categories:

- seed capital investments - the Administrators have realised a further €2.9m in relation to an investment in a Lehman private equity fund.
- external hedge funds - the remaining half of a \$50m investment in a Bluebay Multi-Strategy fund has yielded approximately \$19.6m in cash (the remainder being redeemed in specie because of market conditions).

As expected, fewer realisations were made in this period compared to the previous period. This is because the majority of the remaining assets remain frozen due to:

- ownership/custodian claims being asserted against LBIE; and
- funds having been suspended as a result of their assets being held by LBIE as prime broker.

Future strategy

The Administrators will continue to:

- retain control of and manage the investments; and
- expedite further realisations that remain dependent on other parties, subject to resolution of ownership and custodian issues.

Section 2.4: Extension of the administration

Extension of the administration

On 28 July 2009 the Administrators made an application to Court to extend the period of the administration. The Court made an Order extending the administration until 30 November 2011.

The application was made for the following reasons:

- there are various matters in the estate that, in the Administrators' view, would be better dealt with in administration than in an alternative insolvency procedure;
- entering into an insolvency process other than administration has the effect of breaking the Group of Companies for tax purposes. The Administrators are aware that there are potential tax losses within the Group which may have value to this estate and which would be lost if the Company entered into another insolvency process; and
- the Administrators are not yet in a position to determine the most appropriate exit route from administration.

Section 3: Statutory and other information

Court details for the administration:	High Court of Justice, Chancery Division, Companies Court - case 7944 of 2008
Full name:	LB UK RE Holdings Limited
Trading name:	LB UK RE Holdings Limited
Registered number:	05347966
Registered address:	25 Bank Street, London E14 5LE
Company directors:	JC Blakemore, D Gibb, PEJ Hansell, IM Jameson, GR Moar, CJ Patrick, B Porter, AJ Rush and PA Sherwood
Company secretary:	P Dave and ESE Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in LB UK RE
Date of the administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and GH Martin, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	Achieving a better result for LB UK RE's creditors as a whole than would be likely if LB UK RE 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 administration is 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.
Details of any extensions of the initial period of appointment:	The Court has granted an extension of the administration to 30 November 2011.
Proposed end of the administration:	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.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LB UK RE's net property:	There may be sufficient net property to enable a distribution for unsecured creditors under the prescribed but the estimated value of LB UK RE's net property is uncertain.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	It is too early to decide whether such an application might be necessary.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to this administration and these are the main proceedings.

Section 4: Financial information

Statement of Affairs

The Directors submitted the sworn Statement of Affairs on 16 February 2009. The Administrators have decided not to provide the Statement of Affairs with this report to avoid prejudicing ongoing negotiations with interested parties regarding the sale of Company assets.

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").

On 29 January 2009 a Creditors' Committee was formed, whose duties include approving the basis and quantum of the Administrators' remuneration.

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 Committee is 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' committees 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.

Committee members have each been provided with a copy of SIP 9.

When seeking agreement for remuneration, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their remuneration 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.

Remuneration review and approval process

In accordance with SIP 9 the Committee has been provided with details of the charge-out rates for all grades of staff which are involved on the case.

As the Administrators' remuneration request is based on time costs the Committee has been provided with an account of the time spent and the charge-out rate, together with additional information setting out the approach to the project, the milestones and progress against such milestones.

Full disclosure has been made which comprises an extensive explanation of the Administrators' activities, methods and achievements in order to enable the value of the exercise to be understood.

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; and
- any other case-specific matters.

The analysis that has been provided to the Committee contains 13 sub-divisions of time spent.

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

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

The Committee has been provided with an analysis of staff allocated between six grades.

SIP 9 also suggests that an explanation of what has been done should include an outline of the nature of the assignment and the Administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- any significant aspects of the case, particularly those that affect the amount of time spent;
- the reasons for subsequent changes in strategy;
- any comments on any figures in the summary of time being spent accompanying the request the Administrator wishes to make;
- the steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, fee drawing or remuneration agreement; and

Each of these matters has been covered in some detail in the discussions we have had with the Committee. The administrative matters referred to in the body of this report have been covered in extensive detail with the Committee and each area of our activities discussed in depth.

Resolution of the Creditors' Committee

To date the Creditors' Committee has approved remuneration of £11.4m excluding VAT. This represents 29,935 hours at an average hourly rate of £380.83, excluding VAT.

Receipts and payments account

An account of the receipts and payments in the administration for the six months to 14 September 2009, and a cumulative total since commencement of the administration, is set out in section 5 to this report.

Significant receipts in the period covered by this report include:

- \$57.9m in respect of income from and the sale of SNPL portfolios;
- \$7.9m in respect of income from and the sale of real estate investments; and
- \$53.7m in respect of income from the realisation of principal investments.

Significant payments include:

- payroll and employee costs of \$10.9m;
- building and occupancy costs of \$4.4m;
- legal fees of \$9.4m; and
- Administrators' fees of \$22m

Net receipts as at 14 September 2009 total \$457.8m.

Section 5: Receipts and payments

As at 14 September 2009

	GBP (£)	US (\$)	EUR (€)	As at 14 Sep 09 Total (USD Equivalent) \$	As at 14 Mar 09 Total (USD Equivalent) \$	Movements (USD Equivalent) \$
	mil	mil	mil	mil	mil	mil
RECEIPT						
SNPL	-	57.8	36.7	111.6	53.7	57.9
Real Estate	3.9	0.1	4.5	13.0	5.1	7.9
Principal investments	0.2	171.0	151.5	393.0	339.3	53.7
Other recoveries	0.4	-	-	0.7	-	0.7
Internal currency transfer	33.2	2.6	-	57.8	5.3	52.5
Interest	-	0.2	0.3	0.6	-	0.6
Receipts Grand Totals	37.7	231.7	193.0	576.7	403.4	173.3
PAYMENT						
Building and occupancy cost	3.5	-	-	5.8	1.4	4.4
Payroll and employee costs	8.5	-	-	14.1	3.2	10.9
Legal fees	5.8	-	0.3	10.1	0.7	9.4
Insurance	1.4	-	0.1	2.4	1.6	0.8
Principal investments	-	0.3	-	0.3	0.3	-
Acquisition of Portuguese loan portfolio	-	-	5.4	7.8	-	7.8
Joint Administrators' fees (incl. VAT)	13.3	-	-	22.0	-	22.0
Other professional fees	0.5	-	0.8	2.1	0.9	1.2
Real estate valuations	0.2	-	-	0.3	0.1	0.2
Internal currency transfer	1.7	39.9	7.6	54.0	5.4	48.6
Payments Grand Totals	34.9	40.2	14.2	118.9	13.6	105.3
NET POSITION	2.8	191.5	178.8	457.8	389.8	68.0
CASH BALANCES						
BoE	-	0.1	-	0.1		
HSBC	1.6	21.7	3.3	29.2		
Money markets	1.2	169.8	175.5	428.5		
Total Cash	2.8	191.5	178.8	457.8		

Exchange rates as at 14 September 2009:

GBP £1 : US\$	1.6614
EURO €1 : US\$	1.4631

NB: VAT stated gross as only 63% of VAT incurred is recoverable