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***LB UK RE Holdings  
Limited –  
In Administration***

Joint Administrators' progress  
report for the period 15 March 2010  
to 14 September 2010

13 October 2010

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

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

Creditors should 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 should also have received the Administrators' first progress report dated 9 April 2009, second progress report dated 13 October 2009 and third progress report dated 12 April 2010.

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 2010.

## ***Business activities***

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

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

## ***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 manage LB UK RE's portfolio of assets; and
- Realise these assets 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") - subject to Chapter 11 Bankruptcy proceedings in the US
2. Reed Smith Richards Butler LLP
3. Eldon Street Holdings Limited – in Administration
4. Lehman Brothers Europe Limited – in Administration
5. Lehman Brothers Limited – in Administration

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors and in consultation with the Creditors' Committee. The Administrators have met with the Creditors' Committee three times.

## ***Outcome for creditors***

LBHI have made a proposal to the Company which, in summary, proposes the use of a company voluntary arrangement process to compromise all liabilities and allow LBHI to assume control of LB UK RE. The Administrators are currently in discussions with LBHI over the proposal. At present, the Administrators consider that there are a number of reasons why it would not be appropriate to put such a proposal forward to creditors.

At this time the Administrators have not sought to provide an estimate of the likely dividend to creditors as there are uncertainties regarding asset valuations and the final level of creditors' claims.

If you have not already submitted your claim to the Administrators, please do so by completing and returning the attached statement of claim form.

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### ***Future reports***

The Administrators will next report to creditors in approximately six months. The Administrators will of course contact creditors before this should there be any developments in the matter of the LBHI proposal.

Signed:



D Y Schwarzmman  
Joint Administrator  
LB UK RE Holdings Limited

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## ***Section 2 Joint Administrators' actions to date***

### ***Summary of actions taken to date***

The Administrators have continued with the strategy in their proposals, approved by creditors on 20 November 2008.

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

## 2.1 Loan portfolios

### **Introduction**

LB UK RE invested in portfolios of sub-performing, non-performing and performing loans (“SNPLs”) throughout the world. These SNPL portfolios comprise a mixture of unsecured loans and loans secured on residential property assets.

### **Strategy**

The strategy adopted by the Administrators was to:

- Develop bespoke strategies to optimise recoveries from each of LB UK RE’s SNPL portfolios; and
- Maintain and refine the necessary processes and resources to manage the SNPL portfolios on a day-to-day basis.

### **Progress to date**

The Administrators have:

- Secured collections from the SNPL portfolios during the period of £18.4m, bringing the cumulative collections during the Administration to £102m;
- Pro-actively managed 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; and
- Established, maintained and refined reporting frameworks to manage and monitor SNPL portfolio collections.

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

### **Portugal**

The Administrators have:

- Worked closely with local and UK management in order to agree collection targets and expense budgets for the assets and entities under management;
- Overseen the continuing orderly run-off of the existing portfolio under the current legal entity structure;
- Supported operational improvements aimed at optimising the performance of the local servicer,

which plays a key role in realising value from the loan portfolio;

- Completed the renegotiation of payment schedules within the servicing agreement in order to maximise collections from the loan portfolio;
- Continued to work closely with the local servicer in understanding its strategy and improving their business offering to the Portuguese market. This has resulted in securing contracts for third party portfolio servicing, including:
  - Servicing 4,000 borrowers on behalf of a Portuguese bank; and
  - Preparatory due diligence for the future servicing of 3,500 borrowers; and
- Responded to ad-hoc issues and challenges with respect to the day-to-day management of the portfolio.

### **Germany**

The Administrators have:

- Continued to work closely with key stakeholders, including the other non-Lehman noteholder, to ensure that portfolio collections continue to be made efficiently;
- Worked alongside the key staff to actively direct, manage and monitor the day-to-day collection activities of the local servicer, which is responsible for seeking recoveries in relation to approximately 2,000 residential mortgage assets;
- Identified potential operational improvements and commenced discussions with the local servicer with regard to their implementation;
- Completed the renegotiation of the servicing agreement which is designed to optimise collections; and
- Resolved a number of issues arising from the complex securitisation structure, including the extension of its maturity to maintain, control and protect value.

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## ***Poland***

The Administrators have:

- Identified how a sale strategy for the portfolio might be implemented, notwithstanding local restrictions in relation to the disclosure of borrower data. In light of this, the Administrators now plan to evaluate the likely outcome of a sale compared to a continued managed wind-down strategy;
- Continued to work closely with the local servicer to ensure good working relationships are maintained and collections optimised;
- Worked alongside the key Lehman's staff member to actively direct, manage and monitor the day-to-day collections activities of the local servicer, which is dealing with approximately 1,275 secured and unsecured corporate debtors;
- Conducted an updated review of the largest loans in the portfolio to ensure that the business plan for the portfolio remains appropriate and that optimal work-out strategies are being pursued by the local servicer; and
- Undertaken a sample review of property appraisals used by the local servicer in support of their recovery strategies.

## ***Other portfolios***

- Spanish portfolio – The Administrators have continued to actively manage, control and monitor the performance of the local servicer, following agreement to amend the servicing arrangements to provide an increased incentive to optimise collections. In addition, the Administrators have overseen the implementation of a number of new and improved collection processes; and
- Belgian portfolio – The Administrators have continued to progress the small number of remaining cases and also conducted a review of the Belgian portfolio to ensure that all recoverable assets are being pursued.

## ***Future strategy***

The Administrators will continue to:

- Pro-actively monitor SNPL portfolio performance for the Portuguese, German, Polish, Spanish and Belgian portfolios;
- Periodically review SNPL portfolio strategies in the light of collections performance and local developments in each case; and
- Seek to identify and, in consultation with the relevant servicer and Lehman's staff, implement

further efficiency and cost saving strategies where appropriate.

## 2.2 Real estate investments

### Introduction

LB UK RE was the principal vehicle through which the Lehman Group's European real estate investments were made.

These investments were principally in the form of debt/equity positions in approximately 50 joint venture property holding companies ("JVs") with approximately 40 different partners.

### Strategy

In view of the market conditions at the date of the Administration and the nature of the investments, quick distressed sales would not have realised optimal value. As such, since their appointment, the Administrators have had the objective of stabilising the real estate investments such that:

- LB UK RE's equity is not diluted or extinguished by partners' or lenders' actions;
- Senior and mezzanine lenders would not enforce any event of default;
- Terms of property fundings were negotiated to achieve optimal positions;
- JV partners and local asset managers were incentivised to actively manage the investments and underlying properties; and
- Performance of the underlying properties was improved by increasing occupancy and rents and reducing costs.

The Administrators continue to implement the strategy by:

- Developing a comprehensive understanding of LB UK RE's real estate investment portfolio with the assistance of Lehman Group employees and JV partners;
- Putting in place the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis;
- Developing and adjusting a detailed strategy for each investment with a view to maximising realisations;
- Engaging with JV partners and senior lenders to implement the strategy; and
- Selling investments or forcing repayment of

loans when it is deemed that the optimal value can be realised.

### 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;
- Negotiated with various JV partners, senior lenders and suppliers to stabilise the investments and their value, including:
  - Waiving Lehman's insolvency event of default;
  - Agreeing loan standstills as both borrower and lender as a precursor to loan restructuring agreements;
  - Negotiating consensual sales with a discounted pay-off to the senior lender or for a sales fee to avoid distressed liquidation sales;
  - Brokering loan restructures between equity and senior lenders where LB UK RE has an interest in the mezzanine debt;
  - Converting development loans into term loans;
  - Negotiating compensation for loss of ratchet rights;
  - Defending early prepayment of the mezzanine loans to maintain the value of investments;
  - Commencing negotiations on varying shareholder agreements for consideration;
  - Reducing the level of suppliers' fees;
  - Managing and streamlining the group structures in which property investments are held in order to save costs;
  - Organising and agreeing distributions from solvent subsidiaries;
  - Selling Italian shell vehicle with a banking licence; 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 £17.2m to date from the sales of investments, redemption of loans and distributions from subsidiaries; and
  - Continued to actively manage 33 investments.

### ***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;
- Market assets when realisations can be optimised, being mindful of holding costs; and
- Review and update the realisation strategy as appropriate.

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## 2.3 *Principal investments*

### *Introduction*

In addition to the SNPL portfolios and real estate investments, LB UK RE has other investments which include:

- Seed capital investments in Lehman Brothers group funds;
- External hedge fund investments;
- Listed company investments; and
- Minority stake holdings.

### *Strategy*

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*

Although there have been limited realisations in the last six months, progress has been made in relation to the investments that remain frozen as a result of prime brokerage/custodian issues. The relevant trust asset claims are ongoing but the Administrators are seeking to reach agreement with Lehman Brothers International (Europe) (“LBIE”), the legal owner of most of those assets which will enable certain of the assets to be realised and the proceeds to be held in escrow pending resolution of those claims.

The Administrators have made significant realisations across all categories of principal investments. With the exception of three small stakes in illiquid private companies, the Administrators have realised all principal investments that are within their control. One hedge fund investment continues to make regular automatic redemptions from in-specie stock when the market conditions permit.

Approximately £0.5m has been received from Bluebay Multi Strategy Fund in the period covering this report. Total realisations for all principal investments to date are £239.7m.

### *Future strategy*

The Administrators will continue to:

- Retain control of and manage the investments;
- Resolve ownership and custodian issues on investments held directly through LBIE and hopefully reach agreement with LBIE to enable the realisation of such investments expeditiously; and
- Monitor progress on the LBIE Claims Resolution Agreement in relation to investments in funds that had a prime brokerage with LBIE, with a view to making redemptions when possible.

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## ***2.4 Inter-company claims***

### ***Introduction***

LB UK RE has over 60 inter-company debtor and creditor balances, representing \$600m of debtors and \$2.4bn of creditors at book values as at 12 September 2008.

### ***Strategy***

Since their appointment the Administrators have:

- Worked with the Lehman inter-company workstream to ensure that all claims have been submitted by the bar dates; and
- Commenced the process of reviewing the complex underlying detail behind each inter-company relationship for both debtors and creditors.

### ***Progress to date***

The Administrators have:

- Filed claims with a total value of \$991m against affiliates. These include trust asset claims, guarantee claims and general inter-company claims; and
- Continued the process of investigating inter-company balances and have, as part of this work, entered into extensive communications with affiliates.

### ***Future Strategy***

The Administrators will continue to:

- Progress the claims that have been submitted to ensure these are being driven towards agreement;
- Work with the Lehman inter-company workstream to continue evidencing and submitting claims to meet future bar dates; and
- Put a process in place for creditors of LB UK RE to submit their claims into the estate.

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 7944 of 2008
<i>Full name:</i>	LB UK RE Holdings Limited
<i>Trading name:</i>	LB UK RE Holdings Limited
<i>Registered number:</i>	05347966
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	JC Blakemore (resigned 05/11/08), D Gibb (resigned 17/07/09), PEJ Hansell (resigned 23/10/08), IM Jameson (resigned 17/07/09), GR Moar (resigned 18/09/08), CJ Patrick (resigned 20/11/08), B Porter (resigned 23/10/08), AJ Rush (resigned 28/10/08) and PA Sherwood (resigned 31/10/08)
<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 LB UK RE
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<i>Appointer's name and address:</i>	High Court of Justice, Chancery Division, Companies Court
<i>Objective being pursued by the Administrators:</i>	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)
<i>Division of the Administrators' responsibilities:</i>	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.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted an extension of the Administration to 30 November 2011.
<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>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	It is too early to decide whether such an application might be necessary.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are the main proceedings.

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## ***Section 4 Financial Information***

### ***Administrators' remuneration***

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

In accordance with SIP 9 the Creditors' 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 Creditors' 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 Creditors' Committee contains 13 sub-divisions of time spent.

The following categories are suggested by SIP 9 as a basis for analysis by grade of staff:

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

The Creditors' 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; and
- 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.

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

### ***Resolution of the Creditors' Committee***

To date the Creditors' Committee has approved remuneration of £19.3m excluding VAT. This represents 52,855 hours at an average hourly rate of £365, excluding VAT.

### ***Receipts and Payments account***

An account of the receipts and payments in the Administration for the six months to 14 September 2010, and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

Significant receipts in the period covered by this report include:

- £18.4m in respect of principal and interest income from the SNPL portfolios;
- £2.3m in respect of income from and the sale of real estate investments; and
- £0.5m in respect of income from the realisation of principal investments has been

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received.

Significant payments include:

- Payroll and employee costs of £1.8m; and
- Legal fees of £1.1m.

Net receipts as at 14 September 2010 total  
£304.4m.

## Section 5 Receipts and Payments

RECEIPT	As at 14 September 2010			As at	Movements	As at	As at 14 March 2010 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)	14 September 2010	to 14 September 2010	14 March 2010 (GBP equivalent)	
	mil	mil	mil	TOTAL GBP equivalent GBP (£)	(GBP equivalent) GBP (£)	RESTATED at 14 September 2010 exchange rate GBP (£)	
SNPL	2.0	57.9	74.6	101.7	18.4	83.3	88.0
Real Estate	5.0	0.1	14.6	17.2	2.3	14.9	15.8
Principal investments	0.2	174.5	151.5	239.7	0.5	239.2	252.6
Other recoveries	0.4	-	-	0.4	-	0.4	0.4
Internal currency transfer	48.5	2.6	-	50.2	5.9	44.3	44.3
Interest	0.0	0.6	0.6	1.0	0.4	0.6	0.6
<b>Receipts Grand Totals</b>	<b>56.1</b>	<b>235.7</b>	<b>241.3</b>	<b>410.2</b>	<b>27.5</b>	<b>382.7</b>	<b>401.7</b>
<b>PAYMENT</b>							
Building and occupancy cost	3.7	-	-	3.7	-	3.7	3.7
Payroll and employee costs	10.8	-	1.1	11.7	1.8	9.9	9.9
Legal fees	9.0	-	0.7	9.7	1.1	8.6	8.6
Insurance	1.7	-	0.1	1.7	0.1	1.6	1.6
Principal investments	-	0.3	-	0.2	-	0.2	0.2
Acquisition of Portuguese loan portfolio	-	-	5.4	4.5	-	4.5	4.9
Joint Administrators' remuneration	22.3	-	-	22.3	-	22.3	22.3
Joint Administrators' disbursements	0.1	-	-	0.1	-	0.1	0.1
Other professional fees	0.9	0.0	1.0	1.8	0.4	1.4	1.5
Real Estate valuations	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	0.5	0.4	0.4	-	-
Internal currency transfer	1.7	63.9	7.6	49.5	5.5	44.0	45.1
<b>Payments Grand Totals</b>	<b>50.4</b>	<b>64.2</b>	<b>16.4</b>	<b>105.8</b>	<b>9.3</b>	<b>96.5</b>	<b>98.1</b>
<b>NET POSITION</b>	<b>5.7</b>	<b>171.5</b>	<b>224.9</b>	<b>304.4</b>	<b>18.2</b>	<b>286.2</b>	<b>303.6</b>
<b>CASH BALANCES</b>							
BoE	0.0	0.0	0.1	0.1			
HSBC	2.5	0.2	0.6	3.1			
BoNY	2.0	-	-	2.0			
Money markets	1.2	171.3	224.2	299.2			
<b>Total Cash</b>	<b>5.7</b>	<b>171.5</b>	<b>224.9</b>	<b>304.4</b>			

### Exchange rates as at 14 March 2010:

US\$ 1 : GBP	0.6598
EURO €1 : GBP	0.9088

### Exchange rates as at 14 September 2010:

US\$ 1 : GBP	0.6492
EURO €1 : GBP	0.8333

Amounts include VAT where applicable

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