

LB RE Financing No.3 Limited – In Administration

**Joint Administrators' progress report for the period
30 October 2009 to 29 April 2010**

28 May 2010

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the third progress report by the Joint Administrators (the "Administrators") of LB RE Financing No.3 Limited ("LBREF3" or the "Company"), pursuant to Rule 2.47(3)(a) of the Insolvency Rules 1986.

This report provides an update of 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 29 April 2010.

Objective of the Administration

The Administrators are pursuing the objective of achieving a better result for the creditors of LBREF3 as a whole than would be likely if LBREF3 were wound up (without first being in Administration).

The specific aims of this Administration are to:

- Protect and control the Company's assets, namely the B class notes in a Special Purpose Vehicle held by the Company;
- Maximise income from the assets;
- Identify future cash flows and secure payments for the benefit of the Company; and
- Maximise value for the Company at the time of sale or transfer of the assets.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are uncertainties regarding future realisations. The timing and level of any dividend, therefore, remains uncertain.

Extension of the Administration

On the application of the Administrators, the High Court made an Order extending the period of the Administration to 30 November 2010.

Additional Administrators

Steven Anthony Pearson and Michael John Andrew Jervis were appointed as additional Administrators on 30 November 2009.

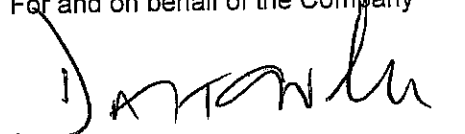
SA Pearson and MJA Jervis are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

AV Lomas, DY Schwarzmann and DA Howell continue to act as Joint Administrators.

Future reports

The Administrators' will next report to creditors in approximately six months time or when the Administration comes to an end, whichever is sooner.

Signed:
For and on behalf of the Company



DA Howell
Joint Administrator
LB RE Financing No. 3 Limited

Section 2: Joint Administrators' actions to date

Overview

The Company was established as a vehicle in which to hold the Lehman Group's interest in loan notes issued by a number of off-balance sheet Special Purpose Vehicles ("SPV's"). The underlying assets in these SPVs are commercial mortgage backed securities. The Company was financed by Lehman Brothers Holdings, Inc ("LBHI") via its immediate parent companies.

Originally assets held by the Company in SPVs had a combined book value of c€2.8billion. However in May 2008 c€2.1billion of these assets were financed to Bankhaus and then in turn to a third party institution. The only asset held by LBREF3 on the date of appointment was a B note (the "B Note") in an SPV ("the SPV"), with a notional value of c€0.7billion. The A Note in the SPV is held by a third party institution ("the A Note Holder") which acquired it as part of the financing arrangement with Bankhaus mentioned above.

Administrators' actions to date

The Administrators actions during the first twelve months of Administration are detailed in previous progress reports, but in summary these actions were:

- The Administrators contacted the relevant stakeholders in relation to LBREF3's holding of a B Note in the SPV;
- The Administrators retained key Lehman staff to assist them in the management of the Company's interest, and to assist the Servicer in giving direction where appropriate to preserve value for both the A and B note holders;
- The Administrators presented a restructuring proposal to the A note holder to work together to recover value from the assets, but no agreement was reached in this regard;
- As no interest or principal payments had been received by LBREF3 in relation to the B note holding, the Administrators were conscious not to incur significant costs due to lack of funds;
- The Administrators were approached by LBHI to enter into an arrangement granting LBHI day to day control of the B Note with an option to acquire it or the shares of LBREF3, if certain conditions are met. In return LBHI will provide LBREF3 with a loan of £1.6m, on a limited recourse basis, to meet the costs of LBREF3's Administration;

- The Administrators also received an offer of €250,000 from the A Note Holder to purchase the B Note outright.
- As no further expressions of interest were received, the Administrators decided the £1.6m loan from LBHI provided the best option to maximise the return for the benefit of LBREF3's creditors;

Since our previous report, the LBHI loan has been approved by the Bankruptcy Court in New York. The motion to approve this was heard without objection on 18 November 2009 and the final transaction documents were completed shortly after that.

Since then, the Administrators have continued to co-operate with LBHI as it manages the interest in the B note.

Extension of the Administrations

The Administrators will decide in due course whether a further extension is necessary.

Section 3: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - Court Case 9634 of 2008
Full name:	LB RE Financing No.3 Limited
Trading name:	LB RE Financing No.3 Limited
Registered number:	06454161
Registered address:	Level 23, 25 Canada Square, London E14 5LQ
Company directors:	PA Sherwood (resigned 31/10/08)
Company secretary:	ESE Upton (resigned 25/01/10),
Shareholdings held by the directors and secretary:	The director does not own shares in LBREF3
Date of the Administration appointment:	30 October 2008
Administrators' names and addresses:	DA Howell, AV Lomas, SA Pearson, MJA Jervis and DY Schwarzmann of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	The directors of the Company, 25 Bank Street, London E14 5LE
Objective being pursued by the Administrators:	Achieving a better result for LBREF3's creditors as a whole than would be likely if LBREF3 were wound up (without first being in Administration).
Division of the Administrators' responsibilities:	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Sole Director of LB RE Financing No.3 Limited (the "Company") has appointed AV Lomas, DY Schwarzmann and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT as Joint Administrators of the Company. The Joint Administrators will act jointly and severally so that all functions may be exercised by any or all of them. Further to the appointment of MJA Jervis and SA Pearson as additional Administrators, any act required of authorised under any enactment to be done by any or all of the joint administrators may be done by one or more of the persons for that time being holding office.
Details of any extensions for the initial period of appointment	The Court has granted an extension of the Administration to 30 November 2010.
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 LBREF3's net property:	Not applicable as there is no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable as there is no prescribed part.
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

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 6 January 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 on account from time to time.

Attached as an Appendix, is a summary of the Administrators' time costs for the period 1 November 2009 to 31 March 2010, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

The SIP 9 summary shows that the total time costs for the period is £105,146 which represents 250.0 hours at an average hourly rate of £420.59.

We previously provided a time cost analysis for the period 30 October 2008 to 31 October 2009.

To date, remuneration of £1,080,781 plus VAT has been drawn

Receipts and payments account

An account of the receipts and payments in the Administration to 29 April 2010 is set out overleaf.

Section 5: Receipts and payments for the period ended 29 April 2010

	As at 29 April 2010 GBP (£)	As at 29 October 2009 GBP (£)	Movements GBP (£)
RECEIPT			
Loan from Group company	700	700	-
Funding from LBHI	1,600,000	-	1,600,000
Receipts Grand Totals	1,600,700	700	1,600,000
PAYMENT			
Statutory Advertising	539	539	-
Legal fees	250,194	-	250,194
Joint Administrators' remuneration	1,080,781	-	1,080,781
Bank charges	40	40	-
VAT paid	199,939	81	199,858
Payments Grand Totals	1,531,493	660	1,530,833
NET POSITION	69,207	40	
CASH BALANCES			
Bank of England	-		
HSBC	69,207		
Money market deposits	-		
Total Cash	69,207		

Appendix: Summary of the Joint Administrators' time costs for the period 1 November 2009 to 30 April 2010

Classification of work	PARTNER / DIRECTOR		SENIOR MANAGER / MANAGER		SENIOR ASSOCIATE		ASSOCIATE / SUPPORT STAFF		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Realisations	92.0	54,963	-	-	2.7	864	-	-	94.7	55,827
Strategy and Planning	6.0	4,674	33.0	14,739	9.9	2,882	6.7	840	55.6	23,135
Accounting and treasury	2.5	1,988	9.5	4,152	1.9	553	9.4	1,715	23.3	8,408
Statutory, compliance and other workstreams	8.9	6,670	12.6	4,303	14.7	4,159	40.2	2,647	76.4	17,776
Grand Total	109.4	68,295	55.1	23,194	29.2	8,455	56.3	5,202	250.0	105,146

The Joint Administrators' policy for charging for disbursements is:

Photocopying is charged at 3p per sheet for creditors and bulk copying
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)
All other disbursements are charged at cost
Total

Costs to date (£)
-

Current charge out rates	Business		Specialist*
	Recovery Services	Max £/hr	
Grade			
Partner	790	1,070	
Director	590	1,030	
Senior manager	580	810	
Manager	390	590	
Senior Associate	320	410	
Associate / Support Staff	200	205	

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 remuneration is to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration.

*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 inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Appendix: Narrative of time costs

The following narrative summarises the work undertaken by the Joint Administrators and their staff during the period.

Asset realisations - £55,827

- Review of SPV loan position;
- Support of SPV servicer on defaulted positions; and
- Finalisation of loan agreement with LBHL.

Strategy and planning - £23,135

- Meetings and correspondence with A Note Holder
- Meetings and correspondence with LBHL; and
- Correspondence with SPV and its supporting agents.

Accounting and treasury - £8,408

- Reconciliation of bank accounts;
- Monitoring flow of funds into the bank accounts;
- Review of interest coverage ratios to inform correspondence with SPV and its supporting agents; and
- Preparation of claims against debtors to meet various bar dates.

Statutory, compliance and other workstreams - £17,776

- Preparation of progress reports and fee analysis;
- Lehman Brothers Limited – in administration recharges; and
- Management of case database and file.
- Tax and VAT work