

The Insolvency Act 1986

Administrators' progress report

Name of Company
LB RE Financing No 3 Limited

Company number
06454161

In the
High Court of Justice, Chancery Division
[full name of court]

Court case number
9634 of 2008

(a) Insert full name(s) and
address(es) of
administrator(s)

We (a) Anthony Victor Lomas, Steven Anthony Pearson, Dan Yoram Schwarzmann,
Michael John Andrew Jervis and Derek Anthony Howell of

PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

Joint Administrators of the above company attach a progress report for the period

from

to

(b) Insert dates

(b) 30 April 2011

(b) 29 October 2011

Signed

[Signature]
Joint Administrator

Dated

28/11/11

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

PricewaterhouseCoopers LLP

7 More London Riverside, London, SE1 2RT

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***LB RE Financing No.3
Limited –
In Administration***

Joint Administrators' progress
report for the period 30 April 2011
to 29 October 2011

28 November 2011

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the sixth progress report by the Joint Administrators (the "Administrators") of LB RE Financing No 3 Limited ("LBREF3" or the "Company")

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 29 October 2011

Objectives 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 was 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

As previously advised, the Administrators are aware of the risk of the Pensions Regulator listing LBREF3 as one of the Lehman companies from which it may seek a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme (the "Pension Scheme").

The FSD legal process has not yet been completed and therefore the Administrators are not certain at this stage that LBREF3 will not have a liability under an FSD

There are also uncertainties regarding future realisations. The Administrators are therefore unable to provide a reliable estimate as to the timing and level of any dividend to ordinary unsecured creditors at this stage

Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2012.

Future reports

The Administrators will next report to creditors in approximately six months

Signed:



DA Howell
Joint Administrator
LB RE Financing No 3 Limited

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell were appointed as Joint Administrators of LB RE Financing No 3 Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales

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 ("SPVs"), whose underlying assets were commercial mortgage backed securities. The Company was financed by Lehman Brothers Holdings, Inc ("LBHI") via its immediate parent company.

Investments held by LBREF3 in the SPV, Excalibur Funding No 1 Plc ("Excalibur"), originally had a combined book value of c €2.8 billion, however in May 2008, c €2.1 billion of these assets were financed to Bankhaus and then in turn to a third party institution. Therefore, the only material asset held by LBREF3 on the date of the Administrators' appointment was a B Note (the "B Note") in Excalibur, which had a notional value of c.€0.7 billion.

The A Note in Excalibur is held by a third party institution (the "A Note Holder") which acquired it as part of the above mentioned financing arrangement with Bankhaus.

Administrators' actions to date

A detailed summary of the Administrators' actions in prior periods is included in previous reports.

Legal proceedings

On 11 June 2010, Excalibur filed in the High Court an application (the "Excalibur Application") for permission, under paragraph 43(6) of Schedule B1 to the Insolvency Act 1986, to institute and continue legal proceedings in respect of the B Note against LBREF3 and Lehman Brothers International (Europe) - in Administration ("LBIE").

The application in respect of LBIE was subsequently discontinued.

The Administrators of LBREF3 had been working with LBHI and their legal team to resist the application. LBREF3's evidence in response to the Excalibur Application was filed at Court on 29 October 2010. Excalibur filed further evidence on 20 December 2010 and the Administrators (on LBREF3's behalf) filed further evidence in response on 28 January 2011.

The substantive Court hearing of the matter was originally due to take place during the week commencing 7 February 2011, however, the hearing was postponed.

Excalibur declared an Event of Default in respect of the securitisation in late January 2011. LBREF3 contended that no Event of Default in fact occurred and commenced legal proceedings against Excalibur (and certain other relevant parties) ("the LBREF3 application") in order to have that issue determined. The Excalibur application was therefore stayed pending determination of the LBREF3 application.

The LBREF3 application resulted in evidence being filed by both sides and, on 26 July 2011, the application was heard in front of Justice Briggs. The determination from that hearing was that no Event of Default had occurred, as LBREF3 had contended. The Excalibur application would therefore continue, and the hearing was listed for early 2012.

The Administrators continued to consider whether a sale of the B Note would provide a better return to creditors, and following protracted negotiations, the Administrators completed a sale and transfer of the B Note to a third party purchaser on 11 October 2011. As a result of the sale, arrangements between LBREF3 and LBHI have been terminated. LBREF3 has been released from all obligations to repay the non-recourse loans. Furthermore, LBREF3 has been released from all its obligations with respect to the B Note, and all ongoing litigation involving the Company has now ceased.

Outstanding matters

The Administrators will continue working towards realising value from the Company's remaining assets and obtaining certainty that no FSD liability will fall on LBREF3.

Section 3 Statutory and other Information

<i>Court details for the Administration</i>	High Court of Justice, Chancery Division, Companies Court - case 9634 of 2008
<i>Full name</i>	LB RE Financing No 3 Limited
<i>Trading name</i>	LB RE Financing No 3 Limited
<i>Registered number</i>	06454161
<i>Registered address</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors</i>	PA Sherwood (resigned 31/10/08)
<i>Company secretary</i>	ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary</i>	The director does not own shares in LBREF3
<i>Date of the Administration appointment</i>	30 October 2008
<i>Administrators' names and addresses</i>	DA Howell, DY Schwarzmnn, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
<i>Appointer's name and address</i>	The director of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators</i>	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)
<i>Division of the Administrators' responsibilities</i>	The current joint administrators are DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmnn 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>	The first extension was granted by the High Court of Justice until 30 November 2010. A second extension was granted by the High Court of Justice until 30 November 2011. A third extension has now been granted by the High Court of Justice until 30 November 2012.
<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 LBREF3's net property</i>	There is no prescribed part 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

Administrators' remuneration

At the initial meeting of creditors 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.

To date, remuneration of £1,270,452 plus VAT has been drawn.

We have previously provided time cost analyses for the period 30 October 2008 to 28 February 2011.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 March 2011 to 29 October 2011, 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 time costs incurred for the period 1 March 2011 to 29 October 2011 are estimated to be £139,425, which represents 333.8 hours at an average hourly rate of £417.69.

The costs are estimates because rate increases from 1 July 2011 have not yet been agreed for reporting and billing. Due to the size and complexity of the Lehman Brothers companies in administration, the time costs included in the SIP 9 summary are an estimate only at this stage.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements in the 6 month period to 29 October 2011 is set out overleaf.

Section 5 Receipts and Payments Account

	29 October 2011 GBP (£)	29 April 2011 GBP (£)	Movements GBP (£)
Receipts			
Sale of B-note in Excalibur	1	-	1
Contribution to costs from LBHI	2,444,082	1,810,065	634,017
Loan from group company	700	700	-
VAT received	2,451	2,451	-
Total Receipts	2 447,234	1,813,216	634,018
Payments			
Joint Administrators' remuneration	1,270,452	1,080,781	189,671
Legal fees	442,521	428,974	13,547
Statutory advertising	539	539	-
Bank charges	40	40	-
Employee costs	1,900	287	1,613
VAT paid	276,090	233,676	42,414
Total Payments	1,991,542	1,744,297	247,245
Net Position	455,692	68,919	386,773
Cash Balances			
HSBC (Non-interest bearing)	455,692	68,919	386,773
Total Cash	455,692	68,919	386,773

Note: As outlined in Section 2, the contribution to costs from LBHI is not required to be repaid

Section 6 Joint Administrators' time costs for the period 1 April 2011 to 29 October 2011

Classification of work	Partner / Director	Senior Manager / Manager	Senior Associate	Associate / Support staff	Total	Average Hourly Rate
	Hrs	Hrs	Hrs	Hrs	Hrs	£
Strategy and planning	14.4	15.7	33.2	1.2	64.5	28,926
Realisation of assets	64.3	83.7	42.6	0.1	190.7	86,856
Accounting and treasury	-	-	6.8	1.5	8.3	2,034
Reporting	-	3.1	20.2	5.2	28.5	8,215
Tax and VAT	-	10.7	2.1	2.4	15.2	6,178
LBL Recharges	0.5	11.5	8.8	5.8	26.6	7,216
Total	79.2	124.7	113.7	16.2	333.8	139,425

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

Costs to date (£)
-
-
-

Current charge out rates	BRS	Specialist
Grade	Max £/hr	Max £/hr
Partner	800	838
Director	610	610
Senior manager	470	470
Manager	395	395
Senior Associate	330	330
Associate / Support Staff	210	210

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.

Narrative of the Joint Administrators' time costs for the period 1 March 2011 to 29 October 2011

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

Strategy and planning - £28,926

- Meetings and correspondence with LBHI,
- Meetings to agree litigation strategy,
- Reviewing Excalibur documentation, and
- Meetings and correspondence regarding strategy for legal action.

Asset realisations - £86,856

- Reviewing the SPV loan position,
- Meetings and correspondence regarding Excalibur and Bankhaus,
- Liaising with LBHI regarding funding, and
- Sale of B Note interest in Excalibur and settlement of associated legal actions

Accounting and treasury - £2,034

- Preparing receipts and payments account for statutory reporting,
- Reconciling bank accounts, and
- Monitoring flow of funds into the bank accounts.

Statutory and reporting – £8,215

- Managing case database and file,
- Reviewing and preparing time cost analysis;
- Preparing the fifth progress report, and
- Preparing documentation for the Court application to extend the Administration

Tax and VAT – £6,178

- Tax analysis of debt and release of debt implications,
- Preparing and updating tax function costs; and
- Other tax and VAT work

LBL recharges – £7,216

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies