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

Joint Administrators' progress  
report for the period 30 October  
2010 to 29 April 2011

26 May 2011

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

## **Introduction**

This is the fifth 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 April 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 Pensions Regulator listed LBREF3 as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme

The Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that a Financial Support Direction should not be issued against LBREF3. However, as the FSD legal process has not yet been completed, the Administrators are not certain at this stage that LBREF3 will not have liability under an FSD. Accordingly, the Administrators have written to the trustees of the pension scheme in order to obtain clarification on whether a liability under an FSD will fall to LBREF3.

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 to further extend the period of the Administration to 30 November 2011. In light of the outstanding pension issue and ongoing asset realisations, the Administrators are expecting to apply to Court for a further extension to the Administration in due course.

## **Future reports**

The Administrators will next report to creditors in approximately six months

Signed:



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

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 summary of the Administrators' actions in the period to 29 October 2010 is set out below.

- Following their appointment, the Administrators contacted the relevant stakeholders in relation to the Company's holding of the B Note;
- The Administrators retained key Lehman staff to assist them in managing the Company's interest, and to assist the servicer in giving direction where appropriate, with the aim of preserving value for both the A and B Note Holders;
- A restructuring proposal was presented by the Administrators to the A Note Holder in order to work together to recover value from the assets, however no agreement was reached in this regard;
- As no interest or principal payments had been received by the Company in relation to the B Note holding, the Administrators were mindful not to incur significant costs due to lack of funds;
- LBHI approached the Administrators with a view to entering into an arrangement which would grant LBHI day to day control of the B Note with an option to acquire it or

the shares of the Company, if certain conditions are met. In return, LBHI would provide the Company with a loan of £1.6m, on a limited recourse basis, in order to meet the costs of the Administration of the Company,

- In addition, the Administrators 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 concluded that the £1.6m loan from LBHI would provide the best option to maximise the return for the benefit of the Company's creditors; and
- The LBHI loan was subsequently approved by the Bankruptcy Court in New York in a motion which was heard without objection.

### **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 has subsequently been discontinued.

The Administrators of LBREF3 have 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<sup>th</sup> October 2010. Excalibur filed further evidence on 20<sup>th</sup> December 2010 and the Administrators (on LBREF3's behalf) filed further responsive evidence on 28<sup>th</sup> January 2011. The substantive Court hearing of the matter was originally due to take place during the week commencing 7<sup>th</sup> February 2011, but was postponed to 14<sup>th</sup> November 2011.

In the last week of January, Excalibur declared an Event of Default in respect of the securitisation. LBREF3 contends that no Event of Default in fact occurred and has commenced legal proceedings against Excalibur (and certain other relevant parties) in order to have that issue determined.

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## ***Outstanding matters***

Managing the proceedings against Excalibur, together with responding to the Excalibur Application, is the main focus of the administration at present and that is expected to continue to be the case for most of 2011. If they were to succeed in full, the proceedings that Excalibur seeks to bring by the Excalibur Application would result in LBREF3 losing control of the B Note. The Administrators will therefore continue to use the resources available to them to pursue the proceedings against Excalibur, whilst resisting the Excalibur Application and will in due course, as necessary and appropriate, defend the proposed proceedings to which the Excalibur Application relates.

## 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 Schwarzmann, 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 of LBREF3 are DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann 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 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>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

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## ***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.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2010 to 28 February 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 total time costs for the period 1 October 2010 to 28 February 2011 total £130,728, which represents 295.4 hours at an average hourly rate of £442 55.

We have previously provided time cost analyses for the period 30 October 2008 to 30 September 2010.

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 2011 is set out overleaf.

## Section 5 Receipts and Payments Account

	As at 29 April 2011 (GBP (£))	Movements GBP (£)	As at 29 October 2010 GBP (£)
<b>Receipts</b>			
Funding from LBHI	1,810,065	210,065	1,600,000
Loan from group company	700	-	700
VAT received	2,451	2,451	-
<b>Total Receipts</b>	<b>1,813,216</b>	<b>212,516</b>	<b>1,600,700</b>
<b>Payments</b>			
Joint Administrators' remuneration	1,080,781	-	1,080,781
Legal fees	428,974	178,780	250,194
Statutory advertising	539	-	539
Bank charges	40	-	40
Gross wages & salaries	287	287	-
VAT paid	233,676	33,737	199,939
<b>Total Payments</b>	<b>1,744,297</b>	<b>212,804</b>	<b>1,531,493</b>
<b>Net Position</b>	<b>68,919</b>	<b>(288)</b>	<b>69,207</b>
<b>Cash Balances</b>			
HSBC (Non-interest bearing)	68,919	(288)	69,207
<b>Total Cash</b>	<b>68,919</b>	<b>(288)</b>	<b>69,207</b>



# Section 6 Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support staff		Total		Average Hourly Rate
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	£
Asset realisations	74.3	45,293	16.7	6,598	-	-	-	-	91.0	51,891	570.23
Strategy and planning	22.0	17,600	95.0	37,537	8.6	2,838	-	-	125.6	57,975	461.58
Accounting and treasury	-	-	-	-	0.6	148	0.2	42	0.8	190	237.50
Investigation and legal issues	-	-	10.3	4,327	14.0	2,224	23.3	4,369	47.6	10,920	229.41
Statutory and reporting	-	-	0.4	188	17.5	5,725	-	-	17.9	5,913	330.34
Tax and VAT	-	-	0.2	115	-	-	-	-	0.2	115	575.00
LBL Recharges	0.2	101	5.2	2,102	3.4	874	3.5	647	12.3	3,724	302.76
<b>Total</b>	<b>96.5</b>	<b>62,994</b>	<b>127.8</b>	<b>50,857</b>	<b>44.1</b>	<b>11,809</b>	<b>27.0</b>	<b>5,058</b>	<b>295.4</b>	<b>130,728</b>	<b>442.55</b>

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	Business Recovery Services	Specialist*
Grade	Max £/hr	Max £/hr
Partner	800	980
Director	610	890
Senior manager	470	830
Manager	395	605
Senior Associate	330	330
Associate / Support Staff	210	195

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.

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## ***Narrative of the Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011***

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

### **Asset realisations - £51,891**

- Meetings and correspondence regarding Excalibur and Bankhaus;
- Discussions and correspondence regarding retaining the asset,
- Liaising with LBHI regarding funding; and
- Review of SPV loan position.

### **Strategy and planning - £57,975**

- Meetings and correspondence with LBHI,
- Meetings to agree litigation strategy,
- Review of documentation regarding application;
- Reviewing Excalibur documentation; and
- Meetings and correspondence regarding strategy of legal action.

### **Accounting and treasury - £190**

- Preparation of receipts and payments account for statutory reporting;
- Reconciliation of bank accounts, and
- Monitoring flow of funds into the bank accounts.

### **Investigation and legal Issues - £10,920**

- Preparation and review of application to Court; and
- Reviewing electronic records including conducting email searches for Court application.

### **Statutory and reporting – £5,913**

- Preparation of fourth progress reports;
- Review and preparation of time cost analysis; and
- Management of case database and file.

### **Tax and VAT – £115**

- Tax and VAT work.

### **LBL recharges – £3,724**

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