

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

(b) Insert dates

from

to

(b) 30 April 2012

(b) 17 July 2012

Signed



Joint Administrator

Dated

18/7/12

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

Tel 0207 583 5000

DX Number

DX Exchange



A1DKT654

A14

20/07/2012

#348

COMPANIES HOUSE

When you have completed and signed this form please send it to the Registrar of Companies at

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

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

Joint Administrators' final progress
report for the period 30 April 2012
to 17 July 2012

18 July 2012

Contents

Section 1	<i>Purpose of the Joint Administrators' final progress report</i>	3
Section 2	<i>Joint Administrators' actions</i>	4
Section 3	<i>Summary of the Joint Administrators' proposals</i>	6
Section 4	<i>Statutory and other Information</i>	8
Section 5	<i>Financial Information</i>	9
Section 6	<i>Final Receipts and Payments Account</i>	10
Section 7	<i>Joint Administrators' time costs for the period 1 April 2012 to 31 May 2012</i>	11

Section 1 Purpose of the Joint Administrators' final progress report

Introduction

The Joint Administrators ("the Administrators") are pleased to provide to creditors their final progress report on the Administration of LB RE Financing No 3 Limited ("LBREF3" or the "Company") pursuant to Rules 2 47 and 2 110 of the Insolvency Rules 1986 ("IR86")

The Administrators are required to provide certain statutory information pursuant to Rule 2 47(1)(a) to (d) IR86, which is shown in Section 4 to this report. The Administrators are also required to provide a summary of their proposals, which is shown at Section 3.

Details of the steps taken during the Administration, assets still to be realised and the outcome of the Administration are set out below

Objective of the Administration

The Administrators have been 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 were to:

- Protect and control the Company's assets, namely the Class B Notes in a Special Purpose Vehicle,
- 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

It has been determined that the objective of the administration has been achieved and the Company will be moving in to creditors' voluntary liquidation ("CVL"). This is in accordance with the Administrators' proposals of 22 December 2008, which were approved by creditors on 6 January 2009

Outcome for creditors

There are likely to be funds available for distribution to unsecured creditors, further information will be provided after the Company enters into CVL

Exit route from Administration

The Administration is due to end on 30 November 2012 following three extensions by the High Court of Justice on the application of the Administrators, the most recent of which was made on 2 November 2011. In accordance with the proposals approved by creditors, the Company will now enter into creditors' voluntary liquidation. There having been no alternate nominations, MJA Jervis, DA Howell and AV Lomas will be appointed as joint liquidators

There are no reasons to make a further application to extend the Administration, it was therefore deemed that a CVL would be the most appropriate exit route for the Company

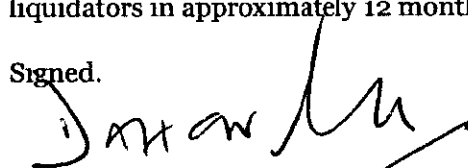
Discharge

In accordance with a resolution of the general body of creditors, the Administrators shall be discharged from liability pursuant to Paragraph 98(1) of Schedule B1 to the Insolvency Act 1986 in respect of any action of theirs as Administrators 14 days after the ceasing to act

Future reports

The next report will be circulated by the future joint liquidators in approximately 12 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

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the administrations

Section 2 Joint Administrators' actions

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. In May 2008, c €2.1 billion of these assets were financed to Lehman Brothers Bankhaus AG and then in turn to a third party institution. Therefore, the only material assets 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, and a claim against Storm Funding Limited ("Storm"), a Lehman Group company.

Administrators' actions to date

The Administrators' actions during the period of the Administration to 29 April 2012 are detailed in previous progress reports, but in summary these actions were:

Initial actions

Following their appointment, the Administrators contacted the relevant stakeholders in relation to the Company's holding of the B Note. The Administrators ensured they 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 were 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 funding

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.

The only other offer, the Administrators received was an offer of €250,000 from the A Note Holder to purchase the B Note outright.

As only two 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. The LBHI loan was subsequently approved by the Bankruptcy Court in New York in a motion which was heard without objection.

Litigation

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 worked 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 had 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 the LBREF3 application was successful. The Excalibur application would therefore continue, and the hearing was listed for early 2012.

Conclusion of B Note matter

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.

Assets to be realised

A claim remains against Storm and will be pursued by the future joint liquidators.

Section 3 Summary of the Joint Administrators' proposals

The Administrators make the following proposals for achieving the purpose of administration

- i The Administrators will continue to manage and finance LBREF3's business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for LBREF3's creditors as a whole than would be likely if LBREF3 had been immediately liquidated
- ii The Administrators may investigate and if appropriate, pursue any claims that LBREF3 may have under the Companies Act 1985, the Companies Act 2006 or the Insolvency Act 1986 ("IA86") or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of LBREF3 or to maximise their realisations or for any other purpose incidental to these proposals
- iii The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement and the costs of so doing be met as a cost of the Administration as part of the Administrators' remuneration
- iv The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Schedule B1 IA86
- v A creditors' committee will be established if sufficient creditors are willing to act on it. The Administrators propose to seek the election of a creditors' committee and to consult with it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors
- vi The Administrators will consult with the creditors' committee concerning the necessary steps to extend the

Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators shall either apply to the court or seek consent from the appropriate classes of creditors for an extension

- vii The Administrators may use any one or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including
 - (a) The Administrators may place LBREF3 into creditors' voluntary liquidation. In these circumstances, it is proposed that Derek Anthony Howell, Anthony Victor Lomas and Michael John Andrew Jervis be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Schedule B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved, **OR**
 - (b) The Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of LBREF3's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Schedule B1 IA86, following registration of which LBREF3 will be dissolved three months later, **OR**
 - (c) Once all of the assets have been realised and the Administrators have concluded all work within the Administration, the Administrators will file a notice under Paragraph 84(1) Schedule B1 IA86 with the Registrar of Companies, following registration of which the Company will be dissolved three months later or

apply to court under Paragraph 79
Sch B1 for the Administration to be
ended, **OR**

- (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Schedule B1 IA86, following registration of which LBREF3 will be dissolved three months later. If permission is not granted the Administrators will place LBREF3 into creditors' voluntary liquidation or otherwise act in accordance with any Order of the Court.

- viii The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch B1 IA86 in respect of any action of theirs as Administrators at a time determined by the creditors committee or, if no creditors committee appointed, after 14 days from the date of ceasing to act as Administrators of LBREF3.
- ix The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge-out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No 9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead, as set out in Appendix B.

Section 4 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 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 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>	Upon registration of Form 2 34B at Companies House the Company will enter creditors' voluntary liquidation.
<i>Estimated dividend for unsecured creditors</i>	The Liquidators will provide an update as to the quantum and timing of the dividend to 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 5 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 £1,521,177 plus VAT has been drawn in respect of time costs up to 31 March 2012. Remuneration of £249,635 drawn in the period relates to 1 December 2009 to 31 March 2012.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 April 2012 to 31 May 2012, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

We have previously provided time cost analyses for the period 30 October 2008 to 31 March 2012.

The SIP 9 summary shows that the time costs incurred for the period 1 April 2012 to 31 May 2012, are £14,260, which represents 47.49 hours at an average hourly rate of £300.27.

A meeting by way of correspondence was held on 12 June 2012 at which creditors resolved that the Administrators were authorised to draw Category 2 disbursements in respect of certain IT costs to the value of £17,284. To date they have not yet been drawn.

The balance of the Administrators' remuneration and disbursements will be drawn during the liquidation.

Final receipts and payments account

An account of the final receipts and payments in the Administration showing movements in the period to 30 June 2012 is set out overleaf.

Section 6 *Final Receipts and Payments Account*

	As at 17 July 2012 GBP (£)	Movement In Period GBP (£)	As at 29 April 2012 GBP (£)
Receipts			
Sale of B-note in Excalibur	1	-	1
Funding from LBHI	2,444,082	-	2,444,082
Contribution to costs	20,000	-	20,000
Total Receipts	2,464,083	-	2,464,083
Payments			
Joint Administrators' remuneration	1,521,177	249,635	1,271,542
Joint Administrators' category 1 disbursements	8,469	-	8,469
Legal fees	534,098	-	534,098
Statutory advertising	539	-	539
Bank charges	40	-	40
Employee costs	4,864	529	4,335
VAT paid	337,280	45,789	291,491
Total Payments	2,406,467	295,953	2,110,514
Net Position	57,616	(295,953)	353,569
Cash Balances			
HSBC (Non-interest bearing)	57,616	(295,953)	353,569
Total Cash	57,616	(295,953)	353,569

Section 7 Joint Administrators' time costs for the period 1 April 2012 to 31 May 2012

Classification of work	Partner / Director	Senior Manager / Manager	Senior Associate	Associate / Support staff	Total	Average Hourly Rate
	Hrs	Hrs	Hrs	Hrs	Hrs	£
Asset realisations	-	0 80	3 60	0 30	4 70	1,643
Strategy and planning	1 40	2 80	0 20	-	4 40	2,401
Accounting and treasury	-	0 30	3 10	9 60	13 00	3,020
Statutory and reporting	-	5 80	0 20	17 70	23 70	6,466
Tax and VAT	-	1 10	-	-	1 10	565
LBL Recharges	0 09	0 20	0 23	0 07	0 59	165
Total	1 49	11 00	7 33	27 67	47 49	14,260

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)
Connect costs as approved by creditors
All other disbursements are charged at cost

Costs to date (£)
-
17,284
17,284

Current charge out rates *	Business Recovery Services	Specialist*
Grade	From 1 Jan 12	From 1 Jan 12
Partner	838	1,027
Director	639	932
Senior manager	492	869
Manager	414	634
Senior Associate	346	389
Associate / Support Staff	220	204

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 April 2012 to 31 May 2012

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

Asset realisations - £1,643

- Submitting claim into estate of Lehman Brothers International (Europe)

Strategy and planning - £2,401

- Meetings to finalise exit strategy, and
- Maintenance of LBREF3 electronic and permanent files

Accounting and treasury - £3,020

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

Statutory and reporting – £6,466

- Reviewing and preparing time cost analysis, and
- Preparing the seventh progress report

Tax and VAT – £565

- Finalising tax matters, and
- Ensuring that Liquidation process will not adversely impact unsecured creditors.

LBL recharges – £165

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