



Lehman Brothers Limited
Level 23
25 Canada Square
London
E14 5LQ

And by email to: alison.lieberman@lbia-eu.com and Edward.Akohene@lbia-eu.com

22 May 2012

Our ref: DAH/HEG/AD/P11-4

Dear Sirs

LB RE Financing No 3 Limited – in Administration (the “LBREF3” or “the Company”)

Progress Report

Pursuant to Rule 2.47 of the Insolvency Rules 1986, I enclose the Joint Administrators' seventh progress report for this Administration, together with a copy of Form 2.24B.

Meeting by Correspondence

I am also writing to convene a meeting of creditors by correspondence, at which one resolution is being proposed to see your approval for the Administrator's to draw Category 2 disbursements of £17,284 plus VAT. Form 2.25B is enclosed in this regard.

These Category 2 disbursements are in relation to a shared IT software application, iConect. It is an application used by a number of Lehman companies in Administration, the total cost of which has been apportioned on the basis of data volume used by each company. iConect was used by LBREF3 in two litigation actions involving Excalibur Funding No 1 Plc to gather evidence and search historic email accounts. Details of these actions have been set out in previous progress reports and both actions have been settled.

PwC makes a licence and hosting charge to all clients where iConect is used on an assignment. Licences are purchased from an independent supplier, iConect, in US Dollars, and are recharged to clients on a per licence basis. The GBP recharge amount is £65 per licence which is an approximation of the actual USD cost incurred. However, because the foreign exchange rate utilised is an estimated, average rate, set at a level to protect the firm from currency risk, these costs need to be classified as Category 2 disbursements, and the Administrators therefore require approval from creditors before these costs can be drawn.

Hosting costs on a per gigabyte basis are also charged. Hosting comprises general management and support time as well as the capital and operational costs of maintenance of the technology stack. These costs include:

- Storage – disks to store the data
- Backups – the data on the iConect system needs to be backed up on a daily basis
- Upgrades
- Maintenance costs including application maintenance and hardware maintenance
- Keeping the databases optimised i.e. running efficiently

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These costs cannot be allocated precisely to a specific project because the iConect platform is used on numerous projects. A rate of £25 per gigabyte has been charged to LBREF3, in line with the rate typically charged by PwC. Market rates charged by other firms are generally in the range of £25-£40 per gigabyte.

No further cost in respect of iConect will be incurred in future, as the sole purpose for which LBREF3 was using the software was the Excalibur litigation matters, that have now been concluded.

I therefore enclose Form 2.25B, Notice of Meeting by Correspondence, and should be grateful if you would complete this form and return it to me. In order for your vote on the resolution to be counted, you should ensure that I receive your completed Form 2.25B and, if you have not yet submitted it, details of your claim in writing, by 12.00 hours on Tuesday 12 June 2012.

Should you have any queries please contact Andy Darling on 0207 213 3870.

Yours faithfully

For and on behalf of LBREF3

A handwritten signature in black ink, appearing to read 'DA Howell', written over a horizontal line.

DA Howell
Joint Administrator

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

Notice of conduct of business by correspondence**Name of Company**

LB RE Financing No 3 Limited

Company number

06454161

In the

High Court of Justice, Chancery Division, Companies Court

[full name of Court]

Court case number

9634 of 2008

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

(b) Insert full name and address of registered office of the company

(c) Insert number of resolutions enclosed

(d) Insert address to which form is to be delivered

(e) Insert closing date

Repeat as necessary for the number of resolutions attached

Notice is hereby given by (a) Derek Anthony Howell, Anthony Victor Lomas, Dan Yoram Schwarzmann, Steven Anthony Pearson and Michael John Andrew Jervis of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

of (b) LB RE Financing No 3 Limited, Level 23, 25 Canada Square, London, E14 5LQ

that, pursuant to paragraph 58 of Schedule B1 to the Insolvency Act 1986, enclosed are

(c) 1 resolution for your consideration. Please indicate below whether you are in favour or against the resolution.

This form must be received at (d) PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

by 12.00 hours on (e) 12 June 2012 in order to be counted. It must be accompanied by details in writing of your claim if you have not previously provided details of your claim.

Failure to do so will lead to your vote(s) being disregarded.

	In Favour	Against
THAT the Administrators be authorised to draw £17,284 plus VAT in respect of Category 2 disbursements incurred for the usage of the IT software platform, iConect.		

TO BE COMPLETED BY CREDITOR WHEN RETURNING FORM:

Name of creditor: _____

Signature of creditor: _____

(If signing on behalf of creditor, state capacity e.g. director/solicitor)

If you require any further details or clarification prior to returning your votes, please contact us at the address above.

Signed

Derek A Howell

Joint Administrator

Dated 22 May 2012

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

Joint Administrators' progress
report for the period 30 October
2011 to 29 April 2012

22 May 2012

Contents

Section 1	<i>Purpose of the Joint Administrators' progress report</i>	3
Section 2	<i>Joint Administrators' actions to date</i>	4
Section 3	<i>Statutory and other Information</i>	5
Section 4	<i>Financial Information</i>	6
Section 5	<i>Receipts and Payments Account</i>	7
Section 6	<i>Joint Administrators' time costs for the period 1 October 2011 to 31 March 2012</i>	8

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the seventh 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 period to 29 April 2012.

Objectives 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 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.

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") in approximately three months. This is in accordance with the proposals of 22 December 2008, which were approved by creditors on 6 January 2009. The joint liquidators will be MJA Jervis, DA Howell and AV Lomas.

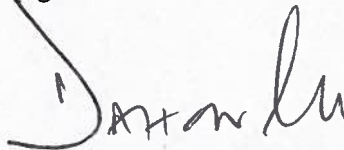
Outcome for creditors

The Administrators expect there will be funds available in due course for ordinary unsecured creditors. Further information will be provided after the Company enters into CVL.

Future reports

The next report will be at the end of the Administration in approximately three months.

Signed:



DA Howell
Joint Administrator
LB RE Financing No. 3 Limited

AV Lomas, SA Pearson, DY Schwarzmenn, 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 Schwarzmenn, 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.€2.8billion. In May 2008, c.€2.1billion 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.€0.7billion, and a claim against Storm Funding Limited ("Storm"), a Lehman Group company.

Administrators' actions to date

A detailed summary of the Administrators' actions in prior periods is included in previous reports, including the actions leading to the disposal of the B Note.

Outstanding matters

There are no outstanding matters for the Administrators.

The claim against Storm will be pursued by the future joint liquidators.

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 Schwarzmman, 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 Schwarzmman 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 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 £1,271,542 plus VAT has been drawn.

We have previously provided time cost analyses for the period 30 October 2008 to 29 October 2011.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2011 to 31 March 2012, 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 October 2011 to 31 March 2012, are £68,064, which represents 190.38 hours at an average hourly rate of £357.52.

Enclosed with this report are details of a meeting by correspondence to seek approval to draw Category 2 Disbursements that have been incurred.

Rate increase

The Administrators have applied an inflationary increase to charge out rates. It is the third increase to rates since appointment and has been put in place with effect from 1 January 2012. Details of increased rates are set out in Section 6.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements in the period to 29 April 2012 is set out overleaf.

Section 5 Receipts and Payments Account

	As at 29 April 2012 GBP (£)	Movement In Period GBP (£)	As at 29 October 2011 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	-
Loan from group company	-	(700)	700
VAT received	-	(2,451)	2,451
Total Receipts	2,464,083	16,849	2,447,234
Payments			
Joint Administrators' remuneration	1,271,542	1,090	1,270,452
Joint Administrators' category 1 disbursements	8,469	8,469	-
Legal fees	534,098	91,577	442,521
Statutory advertising	539	-	539
Bank charges	40	-	40
Employee costs	4,335	2,435	1,900
VAT paid	291,491	15,401	276,090
Total Payments	2,110,514	118,972	1,991,542
Net Position	353,569	(102,123)	455,692
Cash Balances			
HSBC (Non-interest bearing)	353,569	(102,123)	455,692
Total Cash	353,569	(102,123)	455,692

Section 6 Joint Administrators' time costs for the period 1 October 2011 to 31 March 2012

Classification of work	Partner / Director	Senior Manager / Manager	Senior Associate	Associate / Support staff	Total	Average Hourly Rate
	Hrs	£	Hrs	£	Hrs	£
Asset realisations	4.80	3,840	29.50	8,012	80.80	396.86
Strategy and planning	3.40	2,792	17.50	5,092	35.90	388.22
Accounting and treasury	-	-	7.20	1,792	15.70	243.31
Statutory and reporting	-	-	30.30	7,459	32.40	259.75
Tax and VAT	-	-	3.10	1,058	17.30	427.69
LBL Recharges	0.15	93	3.04	771	8.28	293.00
Total	8.35	6,725	90.64	24,184	190.38	357.52

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	To 31 Dec 11	From 1 Jan 12	From 1 Jan 12
Partner	800	838	1,027
Director	610	639	932
Senior manager	470	492	869
Manager	395	414	634
Senior Associate	330	346	389
Associate / Support Staff	210	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 October 2011 to 31 March 2012

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

Asset realisations - £32,066

- Compiling and submitting claim in relation to Storm Funding Limited; and
- Extensive negotiations regarding the release from Excalibur agreements. A contribution to costs of £20,000 has been received in respect of LBREF3's resignation from these agreements.

Strategy and planning - £13,937

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

Accounting and treasury - £3,820

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

Statutory and reporting – £8,416

- Reviewing and preparing time cost analysis; and
- Preparing the sixth progress report.

Tax and VAT – £7,399

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

LBL recharges – £2,426

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

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

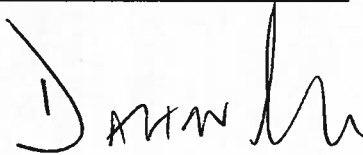
to

(b) Insert dates

(b) 30 October 2011

(b) 29 April 2012

Signed



Joint Administrator

Dated

22/5/2012

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

Companies House receipt date barcode

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