

# LB UK RE Holdings Limited – In Administration

Joint Administrators' progress report for the period 15  
September 2009 to 14 March 2010

12 April 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 of LB UK RE Holdings Limited ("LB UK RE" or the "Company").

Creditors should have received the Joint Administrators' (the "Administrators") proposals dated 4 November 2008 which were approved at a meeting of creditors held on 20 November 2008. Creditors should also have received the Administrators' first progress report dated 9 April 2009 and second progress report dated 13 October 2009.

This report provides an update on 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 14 March 2010.

## Objective of the Administration

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

The specific aims of this Administration are to:

- Protect and manage LB UK RE's portfolio of assets; and
- Realise these assets, including loan portfolios and property investments, on a managed basis.

## Creditors' Committee

A Creditors' Committee was formally constituted on 29 January 2009 and has the following members:

1. Lehman Brothers Holdings Inc ("LBHI") - subject to Chapter 11 Bankruptcy proceedings in the US
2. Reed Smith Richards Butler LLP
3. Eldon Street Holdings Limited – in Administration
4. Lehman Brothers Europe Limited ("LBEL") – in Administration
5. Lehman Brothers Limited ("LBL") – in Administration

The Administrators are consulting with the Creditors' Committee to discuss significant issues and outline key decisions.

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors and in consultation with the Creditors' Committee. The Administrators have met with the Creditors' Committee twice and a further meeting is imminent.

## Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to creditors as there are material uncertainties regarding future realisations and the final level of creditors' claims.

Until there is more certainty regarding the dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Joint Administrators, please do so by completing and returning the attached statement of claim form.

## Change in Administrators

DA Howell was appointed as an additional Administrator on 30 November 2009.

## Change of address

The Company has relocated from 25 Bank Street and all future correspondence should be addressed to The Administrators' of LB UK RE, Level 23, 25 Canada Square, London, E14 5LQ.

## Future reports

The Administrators will next report to creditors in approximately six months.



D Y Schwarzmann  
Joint Administrator  
LB UK RE Holdings Limited

# Section 2: Joint Administrators' actions to date

## **Business activities**

The principal activity of LB UK RE was the management of investments in portfolios of performing, sub-performing and non-performing loans, and in real estate.

LB UK RE utilised employees seconded from LBL and operated from the Lehman Group's former premises at 25 Bank Street, London, E14 5LE.

## **Summary of actions taken to date**

The Administrators have continued with the strategy in their proposals, approved by creditors on 21 November 2008. The following sections summarise the work that has been carried out by the Administrators and their staff in respect of LB UK RE's most significant assets.

# Section 2.1: Loan portfolios

## Strategy

Since their appointment the Administrators have:

- Developed a comprehensive understanding of LB UK RE's performing, sub-performing and non-performing loan ("SNPL") portfolios;
- Established, maintained and refined the necessary processes and resources to manage the SNPL portfolios on a day-to-day basis in the context of the Administration; and
- Developed and implemented bespoke strategies to maximise realisations from each of the SNPL portfolios.

In implementing their strategy the Administrators have had to overcome and continue to face significant issues. For example, the Administrators and their legal advisors have had to assert their rights over LB UK RE's assets in territories that were not familiar with the process and implications of Administration.

## Progress to date

The Administrators have:

- Pro-actively managed the SNPL portfolios, working closely with and directing the activities of servicers and other relevant parties, to ensure that collections are made in a timely and cost efficient manner;
- Retained and worked closely with key Lehman's staff;
- Established reporting frameworks to manage and monitor SNPL portfolio collections; and
- Secured collections from the SNPL portfolios during the period of £16.5m, bringing the cumulative collections since the Administration to £88m.

A summary, by country, is given below of the work undertaken on the portfolios.

## Portugal

The Administrators have:

- Agreed terms with the local fully owned servicing platform in relation to the servicing of an unsecured loan portfolio the purchase

of which was completed shortly after the Administration;

- Worked closely with local and UK management in order to agree collection targets and expense budgets for the assets and entities under management;
- Agreed restructuring terms with one of the local subsidiaries in order to allow the orderly run-off of the existing portfolio under the current legal entity structure;
- Supported an internal management restructuring programme aimed at optimising the performance of the local servicer, which plays a key role in realising value from the loan portfolio;
- Approved the 2009 year end financial statements for the Portuguese subsidiaries which hold and service the loans; and
- Dealt with a number of other issues in relation to the day-to-day management of the portfolio.

## Germany

The Administrators have:

- Worked closely with key stakeholders, including the other non-Lehman note holder, to ensure that portfolio collections continue to be made efficiently;
- Worked alongside the key staff to actively direct, manage and monitor the day-to-day collection activities of the servicer;
- Completed the re-negotiation, subject to formal documentation, of revised terms for the servicing which is designed to optimise collections; and
- Dealt with a number of issues arising from the complex securitisation structure.

## Poland

The Administrators have:

- Made progress in discussions with the Polish Regulator to clarify the extent and implications of local restrictions in relation to disclosure of borrower data, which may enable a sale strategy for the portfolio to be implemented;

- Worked closely with the local servicer;
- Worked alongside the key Lehman's staff member to actively direct, manage and monitor the day-to-day collections activities of the servicer; and
- Commenced an ongoing review of the largest loans in the portfolio to ensure that the business plan for the portfolio remains appropriate and that optimal work-out strategies are being pursued by the servicer.

#### **Other portfolios**

- Spanish portfolio – The Administrators continued to actively manage the solvent Lehman's entity that owns the small portfolios, and closely controlled and monitored the performance of the local servicer, having agreed to amend the servicing arrangements to provide an incentive to optimise collections; and
- Belgian portfolio – The Administrators have agreed settlements on two loan receivables and, with local legal support, collected the sum of €1.2m.

#### **Future strategy**

The Administrators will continue to:

- Pro-actively monitor SNPL portfolio performance for the Portuguese, German, Polish, Spanish and Belgium portfolios;
- Periodically review SNPL portfolio strategies in the light of collections performance and local developments in each case;
- Seek to identify and, in consultation with the servicer and Lehman's staff, implement further efficiency and cost saving strategies where appropriate; and
- Further explore whether a disposal of the Polish portfolio is a strategic option and, if appropriate, conduct a comparative analysis of a sale strategy against a managed wind-down strategy.

# Section 2.2: Real estate investments

## Strategy

Since their appointment the Administrators have:

- Developed a comprehensive understanding of LB UK RE's real estate investment portfolio with the assistance of Lehman Group employees and Joint Venture ("JV") partners;
- Engaged with JV partners and senior lenders to understand and manage potential defaults or breaches of covenants;
- Put in place the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis; and
- Developed and implemented a strategy to maximise realisations from the real estate investment portfolio.

## Progress to date

The Administrators have:

- Worked with and managed JV partners, local asset managers and letting agents to formulate property development, improvements and letting strategies;
- Negotiated with various JV partners, senior lenders and suppliers to stabilise the investments and their value, including:
  - Waiving Lehman's insolvency event of default;
  - Agreeing loan standstills as both borrower and lender as a precursor to loan restructuring agreements;
  - Negotiating consensual sales with a discounted pay-off to the senior lender or for a sales fee to avoid distressed liquidation sales;
  - Brokering loan restructures between equity and senior lenders where LB UK RE has an interest in the mezzanine debt;
  - Converting development loans into term loans;
  - Commencing negotiations on varying shareholder agreements for consideration;
  - Reducing the level of suppliers' fees;
  - Managing group structures holding the property investments; and

- Exchanging parental company guarantees for individual assets;

- Formulated exit strategies for each real estate investment in order to maximise realisations over a period of years; and
- Realised £15.8m from the sales of investments, redemption of loans and distributions from subsidiaries.

## Future strategy

The Administrators will continue to:

- Work with and manage JV partners, local asset managers and letting agents to improve the performance of the assets;
- Negotiate with JV partners, senior lenders and suppliers to stabilise the investments and their value;
- Market assets when realisations can be optimised, being mindful of holding costs; and
- Review and update the realisation strategy as appropriate.



# Section 2.3: Principal investments

## Strategy

Immediately on their appointment, the Administrators worked closely with Lehman Group employees to:

- Understand the legal and beneficial ownership structures of these investments; and
- Formulate strategies for each investment, mindful of the prevailing market conditions.

## Progress to date

The Administrators have made significant realisations across all categories of principal investments. With the exception of three small stakes in illiquid private companies, the Administrators have realised all principal investments that are within their control. One hedge fund investment continues to make regular automatic redemptions from in-specie stock when the market conditions permit.

A significant number of investments remain frozen as a result of prime brokerage/custodian issues. The relevant trust asset claims are ongoing but significant progress has been made such that a number of further realisations should occur in the near future.

Approximately £1.9m has been received from Bluebay Multi Strategy Fund in the period covering this report. Total realisations for all principal investments to date are £252.6m

## Future strategy

The Administrators will continue to:

- Retain control of and manage the investments;
- Resolve ownership and custodian issues on investments held directly through LBIE, with the intention of realising such investments expeditiously; and
- Monitor progress on the LBIE Claims Resolution Agreement (“CRA”) in relation to investments in funds that had a prime brokerage with LBIE, with a view to making redemptions from these funds when possible.

# Section 2.4: Inter-company claims

## Strategy

Since their appointment the Administrators have:

- Worked with the Lehman inter-company work stream to ensure that all claims have been submitted by the bar dates; and
- Commenced the process of reviewing the complex underlying detail behind each inter-company relationship for both debtors and creditors.

## Progress to date

The Administrators have:

- Submitted six claims in total into the estates of Lehman Brothers Bankhaus AG, Lehman Brothers Holding Inc, Lehman Brothers Inc, Lehman Brothers International Europe, Lehman Brothers Special Financing Inc and Lehman Commercial Paper Inc to the value of approximately \$991m. These submissions include trust asset claims, guarantee claims and general inter-company claims.

## Future strategy

The Administrators will continue to:

- Progress the claims that have been submitted to ensure these are being driven towards agreement;
- Work with the Lehman inter-company workstream to continue evidencing and submitting claims to meet future bar dates; and
- Put a process in place for LB UK RE creditors to submit their claims into the estate.

# Section 3: Statutory and other information

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - case 7944 of 2008
<b>Full name:</b>	LB UK RE Holdings Limited
<b>Trading name:</b>	LB UK RE Holdings Limited
<b>Registered number:</b>	05347966
<b>Registered address:</b>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<b>Company directors:</b>	JC Blakemore (resigned 05/11/08), D Gibb (resigned 17/07/09), PEJ Hansell (resigned 23/10/08), IM Jameson (resigned 17/07/09), GR Moar (resigned 18/09/08), CJ Patrick (resigned 20/11/08), B Porter (resigned 23/10/08), AJ Rush (resigned 28/10/08) and PA Sherwood (resigned 31/10/08)
<b>Company secretary:</b>	P Dave (resigned 25/01/10) and ESE Upton (25/01/10)
<b>Shareholdings held by the directors and secretary:</b>	None of the directors own shares in LB UK RE
<b>Date of the Administration appointment:</b>	15 September 2008
<b>Administrators' names and addresses:</b>	DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<b>Appointer's name and address:</b>	High Court of Justice, Chancery Division, Companies Court
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for LB UK RE's creditors as a whole than would be likely if LB UK RE were wound up (without first being in Administration)
<b>Division of the Administrators' responsibilities:</b>	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 any 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.
<b>Details of any extensions of the initial period of appointment:</b>	The Court has granted an extension of the Administration to 30 November 2011.
<b>Proposed end of the Administration:</b>	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.
<b>Estimated dividend for unsecured creditors:</b>	It is too early to estimate the likely dividend for unsecured creditors.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	It is too early to decide whether such an application might be necessary.
<b>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</b>	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

# Section 4: Financial information

## Statement of Affairs

A copy of the Directors' Statement of Affairs ("SoA") as at 15 September 2008 is attached at Appendix A.

The SoA contains the list of creditors and shareholders, including their name, address and amount due together with a breakdown of the assets held by the Company as at 15 September 2008.

## Administrators' remuneration

By way of context, the manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the "Rules").

On 29 January 2009 a Creditors' Committee was formed, whose duties include approving the basis and quantum of the Administrators' remuneration.

There are two alternative bases of determining the remuneration under the Rules, either:

- A percentage of the value of the property with which the Administrator has to deal; or
- By reference to the time properly given by the Insolvency Practitioner and his staff in attending to matters arising in the Administration.

The Rules also provide that in arriving at its decision on remuneration the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the Administrators;
- The effectiveness with which the Administrators appear to be carrying out, or have carried out, their duties; and
- The value and nature of the property which the Administrators have to deal with.

## Statement of Insolvency Practice No.9 ("SIP 9")

In addition to the Rules, SIP 9, issued by the Joint Insolvency Committee provides guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, *inter alia*, Administrators.

The purpose of SIP 9 is to:

PricewaterhouseCoopers LLP

- Ensure that Administrators are familiar with the statutory provisions relating to office holders' remuneration;
- Set out best practice with regard to the observance of the statutory provisions;
- Set out best practice with regard to the provision of information to those responsible for the approval of remuneration to enable them to exercise their rights under the insolvency legislation; and
- Set out best practice with regard to the disclosure and drawing of disbursements.

Committee members have each been provided with a copy of SIP 9.

When seeking agreement for remuneration, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their remuneration to form a judgement as to whether the proposed remuneration is reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend upon:

- The nature of the approval being sought;
- The stage during the Administration of the case at which it is being sought; and
- The size and complexity of the case.

## Remuneration review and approval process

In accordance with SIP 9 the Committee has been provided with details of the charge-out rates for all grades of staff which are involved on the case.

As the Administrators' remuneration request is based on time costs the Committee has been provided with an account of the time spent and the charge-out rate, together with additional information setting out the approach to the project, the milestones and progress against such milestones.

Full disclosure has been made which comprises an extensive explanation of the Administrators' activities, methods and achievements in order to enable the value of the exercise to be understood.

SIP 9 guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Administration and planning;
- Investigations;
- Realisation of assets;
- Trading;
- Creditors; and
- Any other case-specific matters.

The analysis that has been provided to the Committee contains 13 sub-divisions of time spent.

The following categories are suggested by SIP9 as a basis for analysis by grade of staff:

- Partner;
- Manager;
- Other senior professionals; and
- Assistants and support staff.

The Committee has been provided with an analysis of staff allocated between six grades.

SIP 9 also suggests that an explanation of what has been done should include an outline of the nature of the assignment and the Administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- Any significant aspects of the case, particularly those that affect the amount of time spent;
- The reasons for subsequent changes in strategy;
- Any comments on any figures in the summary of time being spent accompanying the request the Administrator wishes to make; and
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, fee drawing or remuneration agreement.

Each of these matters has been covered in some detail in the discussions we have had with the Committee. The administrative matters referred to in the body of this report have been or will be covered in extensive detail with the Committee and each area of our activities discussed in depth.

### **Resolution of the Creditors' Committee**

To date the Creditors' Committee has approved remuneration of £19.3m excluding VAT. This represents 52,855 hours at an average hourly rate of £365, excluding VAT.

### **Receipts and payments account**

An account of the receipts and payments in the Administration for the six months to 14 March 2010, and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

Significant receipts in the period covered by this report include:

- £16.5m in respect of principal and interest income from the SNPL portfolios;
- £7.7m in respect of income from and the sale of real estate investments; and
- £1.9m in respect of income from the realisation of principal investments has been received.

Significant payments include:

- Payroll and employee costs of £1.4m;
- Legal fees of £2.5m; and
- Administrators' fees of £9.1m.

Net receipts as at 14 March 2010 total £303.6m.

# Section 5: Receipts and payments

As at 14 March 2010

	GBP (£)	US (\$)	EUR (€)	As at 14 Mar 10 TOTAL GBP equivalent £	Movements 15 September 2009 to 14 March 2010 (GBP equivalent) £	As at 14 September 2009 (GBP equivalent) RESTATED at 14 Mar 2010 exchange rate £			
	mil	mil	mil	mil	mil	mil	As at 14 September 2009 (GBP equivalent) £	mil	As at 14 September 2009 (USD equivalent) Previously reported \$
<b>RECEIPT</b>									
SNPL	1.3	57.8	53.5	88.0	16.5	71.5		67.2	111.6
Real estate	4.4	0.1	12.5	15.8	7.7	8.1		7.8	13.0
Principal investments	0.2	173.8	151.5	252.6	1.9	250.7		236.5	393.0
Other recoveries	0.4	-	-	0.4	0.0	0.4		0.4	0.7
Internal currency transfer	42.6	2.6	-	44.3	9.4	34.9		34.8	57.8
Interest	-	0.4	0.4	0.6	0.2	0.4		0.4	0.6
<b>Receipts Grand Totals</b>	<b>48.9</b>	<b>234.7</b>	<b>217.9</b>	<b>401.7</b>	<b>35.7</b>	<b>366.0</b>		<b>347.1</b>	<b>576.7</b>
<b>PAYMENT</b>									
Building and occupancy cost	3.7	-	-	3.7	0.2	3.5		3.5	5.8
Payroll and employee costs	9.4	-	0.6	9.9	1.4	8.5		8.5	14.1
Legal fees	8.0	-	0.7	8.6	2.5	6.1		6.1	10.1
Insurance	1.5	-	0.1	1.6	0.1	1.5		1.4	2.4
Principal investments	-	0.3	-	0.2	0.0	0.2		0.2	0.3
Acquisition of Portuguese loan portfolio	-	-	5.4	4.9	0.0	4.9		4.7	7.8
Joint Administrators' fees	22.4	-	-	22.4	9.1	13.3		13.2	22.0
Other professional fees	0.7	0.0	0.9	1.5	0.3	1.2		1.3	2.1
Real estate valuations	0.2	-	-	0.2	0.0	0.2		0.2	0.3
Internal currency transfer	1.7	55.3	7.6	45.1	10.1	35.0		32.5	54.0
<b>Payments Grand Totals</b>	<b>47.6</b>	<b>55.6</b>	<b>15.3</b>	<b>98.1</b>	<b>23.7</b>	<b>74.4</b>		<b>71.6</b>	<b>118.9</b>
<b>NET POSITION</b>	<b>1.3</b>	<b>179.1</b>	<b>202.6</b>	<b>303.6</b>	<b>12.0</b>	<b>291.6</b>		<b>275.5</b>	<b>457.8</b>
<b>CASH BALANCES</b>									
Bank of England	0.0	1.0	4.7	4.9					
HSBC	0.0	5.2	1.0	4.4					
Bank of New York Mellon	1.3	-	-	1.3					
Money markets	-	172.9	196.9	293.0					
<b>Total Cash</b>	<b>1.3</b>	<b>179.1</b>	<b>202.6</b>	<b>303.6</b>					

As per previous report, exchange rate at 14 September 2009		
As at 14 September 2009 (GBP equivalent) £	As at 14 September 2009 (USD equivalent) Previously reported \$	
67.2	111.6	
7.8	13.0	
236.5	393.0	
0.4	0.7	
34.8	57.8	
0.4	0.6	
<b>347.1</b>	<b>576.7</b>	
3.5	5.8	
8.5	14.1	
6.1	10.1	
1.4	2.4	
0.2	0.3	
4.7	7.8	
13.2	22.0	
1.3	2.1	
0.2	0.3	
32.5	54.0	
<b>71.6</b>	<b>118.9</b>	
<b>275.5</b>	<b>457.8</b>	

Exchange rates as at 14 September 2009:

US\$ 1 : GBP 0.6019  
EURO €1 : GBP 0.8806

Exchange rates as at 14 March 2010:

US\$ 1 : GBP 0.6598