
***LB UK RE Holdings
Limited –
In Administration***

Joint Administrators' progress
report for the period 15 September
2010 to 14 March 2011

13 April 2011

Contents

Section 1	<i>Purpose of the Joint Administrators' progress report</i>	3
<hr/>		
Section 2	<i>Joint Administrators' actions to date</i>	5
2.1	Loan portfolios	6
2.2	Real estate investments	8
2.3	Principal investments	10
2.4	Inter-company claims	11
<hr/>		
Section 3	<i>Statutory and other information</i>	12
<hr/>		
Section 4	<i>Financial information</i>	13
<hr/>		
Section 5	<i>Receipts and payments</i>	15

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the fifth 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, second progress report dated 13 October 2009, third progress report dated 12 April 2010 and fourth progress report dated 13 October 2010.

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 2011 ("the Period").

Business activities

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

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

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 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 – in Administration
5. Lehman Brothers Limited – in Administration

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 four times, the latest meeting having been held on 31 January 2011.

Outcome for creditors

In September 2010 LBHI made a further proposal to the Company which proposed the use of a company voluntary arrangement process to compromise liabilities and to allow LBHI to assume control of LB UK RE. The Administrators responded with their concerns on the proposal and in December 2010 LBHI submitted another revised plan. The Administrators have met with LBHI and requested further details in respect of the updated proposal. At present, the Administrators remain of the view that there are a number of reasons why it would not be appropriate to put such a proposal forward to creditors.

At this time the Administrators have not sought to provide an estimate of the likely dividend to creditors as there continue to be uncertainties regarding asset valuations and the final level of creditors' claims.

If you have not already submitted your claim to the Administrators, please do so by completing and returning the attached statement of claim form.

Future reports

The Administrators will next report to creditors in approximately six months. The Administrators will contact creditors before this should there be any developments as regards the LBHI proposal.

Signed:



D Y Schwarzmans
Joint Administrator
LB UK RE Holdings Limited

Section 2 Joint Administrators' actions to date

Summary of actions taken to date

The Administrators have continued with the strategy set out in their proposals and approved by creditors on 20 November 2008.

The following sections summarise, by category of assets, the work that has been carried out by the Administrators and their staff in respect of LB UK RE's most significant assets.

2.1 Loan portfolios

Introduction

LB UK RE invested in portfolios of sub-performing, non-performing and performing loans (“SNPLs”) throughout the world. These SNPL portfolios comprise a mixture of unsecured loans and loans secured on residential property assets.

Strategy

The strategy adopted by the Administrators was to:

- Develop and implement bespoke strategies to optimise recoveries from each of LB UK RE’s SNPL portfolios; and
- Maintain and refine the necessary processes and resources to manage the SNPL portfolios on a day-to-day basis.

Progress to date

The Administrators have:

- Secured collections from the SNPL portfolios during the Period of £14.1m, bringing the cumulative collections during the Administration to £116.5m;
- 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; and
- Established, maintained and refined reporting frameworks to manage and monitor SNPL portfolio collections.

A summary, by country, is given below of the work undertaken on the portfolios with particular emphasis on the work undertaken during the Period.

Portugal

The Administrators have:

- Worked closely with local and UK management in order to oversee the orderly run-off of the portfolio and to review and monitor collection targets and expense budgets for the assets and entities under management;
- Responded to ad-hoc issues and challenges with respect to the day-to-day management of the portfolio and local servicer;

- Maintained portfolio cash collections in line with original projections;
- Supported operational improvements initiated at the local servicer and aimed at optimising servicing performance;
- Worked closely with the local servicer in understanding its strategy and supporting its business offering to the Portuguese market, including:
 - Negotiating a servicing contract between LB UK RE and the local servicer for the servicing of 3,500 borrowers; and
 - Assisting with the assessment of a number of third party business opportunities.
- Facilitated changes to the local servicer’s Board of Directors;
- Supported the local servicer in developing its governance and control function, which plays a key role in the continued growth and value of the business;
- Sought the release of historic pledges over property assets under management in order that these assets may be sold and value realised; and
- Overseen the year-end financial reporting process and facilitated LB UK RE shareholder approval.

Germany

The Administrators have:

- Worked closely with key stakeholders, including the other non-Lehman noteholder, to ensure that portfolio collections continue to be made efficiently;
- Worked alongside the key Lehman’s staff member to actively direct, manage and monitor the collection activities of the local servicer, which is responsible on a day-to-day basis for seeking recoveries from the portfolio of residential mortgage assets, the outstanding number of which has now reduced to approximately 1,500;
- Maintained reasonable collection levels in the face of increasing challenges as the tail-end of the portfolio approaches;

- Identified potential operational improvements and overseen the commencement of their implementation by the local servicer;
- Conducted a comprehensive review of the most valuable loans in the portfolio to ensure that the exit strategies selected by the servicer are appropriate and future collections are optimised; and
- Undertaken an investigation of a potential sale of a sub-portfolio of assets in order to optimise collections in the most timely and cost effective manner.

Poland

The Administrators have:

- Worked alongside the key Lehman's staff member to actively direct, manage and monitor the day-to-day collections activities of the local servicer, which is dealing with secured and unsecured corporate debtors, the outstanding number of which has now reduced to approximately 1,000;
- Worked closely with the local servicer to ensure good working relationships are maintained and collections optimised, which included the provision of guidance and advice in relation to new and refined collections strategies;
- Maintained collection levels broadly in line with expectations;
- Evaluated the likely outcome of a portfolio sale compared to a continued managed wind-down strategy and concluded that a hold strategy continues to offer the best outcome for creditors; and
- Conducted an updated review of the largest loans in the portfolio to ensure that appropriate and optimal work-out strategies continue to be pursued by the local servicer.

Other portfolios

- Spanish portfolio – the Administrators have continued to actively manage, control and monitor the performance of the local servicer and have overseen an improvement in net collections, having previously introduced revised, incentive-based, servicing arrangements in respect of collections and implemented a number of new collection approaches; and
- Belgian portfolio – the Administrators have made steady progress in making collections from the small number of remaining cases, as a

result of which the remaining value to be recovered is now minimal.

Future strategy

The Administrators will continue to:

- Pro-actively monitor SNPL portfolio performance for the Portuguese, German, Polish, Spanish and Belgian portfolios;
- Periodically review SNPL portfolio strategies in the light of collections performance and local developments in each case; and
- Seek to identify and, in consultation with the relevant servicer and Lehman's staff, implement further efficiency and cost saving strategies where appropriate.

2.2 Real estate investments

Introduction

LB UK RE was the principal vehicle through which the Lehman Group's European real estate investments were made.

These investments were principally in the form of debt/equity positions in approximately 50 joint venture property holding companies ("JVs") with approximately 40 different partners.

Strategy

In view of the market conditions at the date of the Administration and the nature of the investments, quick distressed sales would not have realised optimal value. As such, since their appointment, the Administrators have had the objective of stabilising the real estate investments such that:

- LB UK RE's equity is not diluted or extinguished by partners' or lenders' actions;
- Senior and mezzanine lenders would not enforce any event of default;
- Terms of property fundings were negotiated to achieve optimal positions;
- JV partners and local asset managers were incentivised to actively manage the investments and underlying properties; and
- Performance of the underlying properties was improved by increasing occupancy and rents and reducing costs.

Progress to date

In summary, the Administrators continue to implement the strategy by:

- Building on the comprehensive understanding of LB UK RE's real estate investment portfolio with the assistance of Lehman Group employees and JV partners;
- Putting in place the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis;
- Updating and adjusting a detailed strategy for each investment with a view to maximising realisations;
- Engaging with JV partners and senior lenders to implement the strategy; and

- Selling investments or forcing repayment of loans when it is deemed that the optimal value can be realised.

The Administrators have:

- Worked with and managed JV partners, local asset managers and letting agents to formulate property development, improvements and letting strategies;
- Actively managed 31 investments;
- Realised £19.8m to date, of which £2.1m was realised during the Period, from the sale of investments, redemption of loans and distributions from subsidiaries;
- Negotiated with various JV partners, senior lenders and suppliers in order to stabilise the investments and their value, including:
 - Waiving LB UK RE's and its subsidiaries' 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;
 - Negotiating compensation for loss of ratchet rights;
 - Defending early prepayment of the mezzanine loans to maintain the value of investments;
 - Commencing negotiations on varying shareholder agreements for consideration;
 - Reducing the level of suppliers' fees;
 - Managing and streamlining the group structures in which property investments are held in order to save costs;
 - Organising and agreeing distributions from solvent subsidiaries;

-
- Selling an Italian shell vehicle with a banking licence;
 - Exchanging parental company guarantees for individual assets;
 - Agreeing with JV partners to test the market with some assets to determine whether optimal value can be achieved;
 - Negotiating and agreeing inter-company loan balances between LB UK RE’s subsidiaries and non-UK administration companies;
 - Starting negotiations with Lehman Brothers Bankhaus AG (“LBB”) to recover cash locked in an account which requires LBB consent to be transferred; and
 - Agreeing ownership of issued bonds in an Italian SNPL securitisation and extracting information from the Italian loan servicer to assist with agreeing a new SNPL strategy with the servicer.
- Responded to Department of Energy and Climate Change requests for information to prove that none of LB UK RE’s real estate subsidiaries have obligations to carbon tax; and
 - Formulated exit strategies for real estate investments, where appropriate, in order to optimise realisations over a period of years.

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.

2.3 *Principal investments*

Introduction

In addition to the SNPL portfolios and real estate investments, LB UK RE has other investments which include:

- Seed capital investments in Lehman Brothers group funds;
- External hedge fund investments;
- Listed company investments; and
- Minority stake holdings.

Strategy

The Administrators have 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 market conditions permit.

Approximately £1.3m has been received from Bluebay Multi Strategy Fund in the Period.

Two of the assets that are subject to a trust asset claim against Lehman Brothers International (Europe) (“LBIE”) have been realised during the Period: Bluebay Asset Management PLC and Integrated Asset Management plc, with combined proceeds of £46.8m. The relevant trust asset claims are ongoing and the proceeds of sale are therefore being held by LBIE in escrow pending resolution of those claims. Negotiations in relation to the one remaining significant asset in this category are ongoing.

Total realisations for all principal investments to date are £241.1m.

Future strategy

The Administrators will continue to:

- Retain control of and manage the investments;
- Press to resolve ownership and custodian issues on investments held directly through LBIE and realise remaining investments; and
- Monitor progress on the LBIE Claims Resolution Agreement in relation to investments in funds that had a prime brokerage with LBIE, with a view to making redemptions when possible.

2.4 Inter-company claims

Introduction

As at the date of appointment LB UK RE had over 60 inter-company debtor and creditor balances, representing \$600m of debtors and \$2.4bn of creditors at book values as at 12 September 2008.

Strategy

Since their appointment the Administrators have:

- Worked with the Lehman inter-company workstream to ensure that all claims were submitted by the bar dates; and
- Continued the detailed process of reviewing the complex underlying detail behind each inter-company relationship for both debtors and creditors.

Progress to date

The Administrators have:

- Filed claims with a total value of \$996m against affiliates. These include trust asset claims, guarantee claims and general inter-company claims; and
- Continued the process of investigating inter-company balances and have, as part of this work, entered into extensive communications with affiliates. A number of inter-company debtor positions, relating to SNPLs and real estate investments, are ongoing and being actively managed by the Administrators. These ongoing positions, as at the date of the Administrators' appointment, had a book value of \$375m.

Future Strategy

The Administrators will continue to:

- Progress the claims that have been submitted to ensure these are being driven towards agreement; and
- Work with the Lehman inter-company workstream to continue evidencing and submitting claims to meet future bar dates. In particular, following the opening of LBIE's affiliate claims submission portal in February 2011, the Administrators will now be seeking to submit LB UK RE's unsecured claims against LBIE.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 7944 of 2008
<i>Full name:</i>	LB UK RE Holdings Limited
<i>Trading name:</i>	LB UK RE Holdings Limited
<i>Registered number:</i>	05347966
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	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)
<i>Company secretary:</i>	P Dave (resigned 25/01/10) and ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in LB UK RE
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<i>Appointer's name and address:</i>	High Court of Justice, Chancery Division, Companies Court
<i>Objective being pursued by the Administrators:</i>	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).
<i>Division of the Administrators' responsibilities:</i>	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.
<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>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	It is too early to decide whether such an application might be necessary.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are the main proceedings.

Section 4 Financial information

Administrators' remuneration

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

In accordance with SIP 9 the Creditors' 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 Creditors' 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 Creditors' Committee contains 11 sub-divisions of time spent.

The following categories are suggested by SIP 9 as a basis for analysis by grade of staff:

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

The Creditors' 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 Creditors' Committee. The administrative matters referred to in the body of this report have been or will be covered in extensive detail with the Creditors' Committee and each area of our activities discussed in depth.

Resolution of the Creditors' Committee

The Creditors' Committee has approved remuneration to October 2009 of £19.3m excluding VAT. This represents 52,855 hours at an average hourly rate of £365, excluding VAT. The Administrators have submitted a request to the Creditors' Committee for the approval of further remuneration of £6.0m based upon time costs incurred in the period November 2009 to August 2010. This represents 16,840 hours at an average hourly rate of £356, excluding VAT.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 March 2011, and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

Significant receipts in the Period include:

- £14.1m in respect of principal and interest income from the SNPL portfolios;
- £2.1m in respect of income from and the sale of real estate investments;

-
- £1.3m in respect of income from the realisation of principal investments; and
 - £0.4m in respect of a Corporation Tax repayment relating to the quarter ending 30 September 2009.

Significant payments include:

- Payroll and employee costs of £1.5m; and
- Building and occupancy costs of £0.9m.

Net receipts as at 14 March 2011 total £321.7m.

Section 5 Receipts and payments

RECEIPT	As at 14 March 2011			As at 14 March 2011 TOTAL GBP equivalent	Movements from 15 September 2010 to 14 March 2011 (GBP equivalent)	As at 14 September 2010 (GBP equivalent) RESTATED at 14 March 2011 exchange rate	As at 14 September 2010 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)	GBP (£)	GBP (£)	GBP (£)	GBP (£)
	mil	mil	mil	mil	mil	mil	mil
SNPL	2.0	57.9	90.5	116.5	14.1	102.4	101.7
Real Estate	5.8	0.1	16.1	19.8	2.1	17.7	17.2
Principal investments	0.2	176.6	151.5	241.1	1.3	239.8	239.7
Other recoveries	0.4	-	-	0.4	-	0.4	0.4
Internal currency transfer	58.5	2.6	-	60.2	10.0	50.2	50.2
Corporation Tax repayment	0.4	-	-	0.4	0.4	-	-
Interest	0.0	0.7	1.0	1.3	0.3	1.0	1.0
Receipts Grand Totals	67.3	237.9	259.1	439.7	28.2	411.5	410.2
PAYMENT							
Building and occupancy cost	4.6	-	0.0	4.6	0.9	3.7	3.7
Payroll and employee costs	11.9	-	1.5	13.3	1.5	11.8	11.7
Legal fees	9.1	-	0.8	9.8	0.1	9.7	9.7
Insurance	1.7	-	0.1	1.8	0.0	1.8	1.7
Principal investments	-	0.3	-	0.2	-	0.2	0.2
Acquisition of Portuguese loan portfolio	-	-	5.4	4.6	-	4.6	4.5
Joint Administrators' remuneration	22.3	-	-	22.3	-	22.3	22.3
Joint Administrators' disbursements	0.1	-	-	0.1	-	0.1	0.1
Other professional fees	1.3	0.0	1.1	2.2	0.4	1.8	1.8
Real Estate valuations	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	1.0	0.9	0.5	0.4	0.4
Internal currency transfer	1.7	79.9	7.6	58.0	10.0	48.0	49.5
Payments Grand Totals	52.9	80.2	17.5	118.0	13.4	104.6	105.8
NET POSITION	14.4	157.7	241.6	321.7	14.8	306.9	304.4
CASH BALANCES							
BoE	0.0	0.0	0.1	0.1			
HSBC	2.4	2.2	0.6	4.3			
BoNY	2.0	-	-	2.0			
Money markets	10.0	155.5	240.9	315.3			
Total Cash	14.4	157.7	241.6	321.7			

Exchange rates as at 14 September 2010:

US\$ 1 : GBP	0.6492
EURO €1 : GBP	0.8333

Exchange rates as at 14 March 2011:

US\$ 1 : GBP	0.6207
EURO €1 : GBP	0.8671

Amounts include VAT where applicable

This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

© 2011 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

