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

Joint Administrators' progress
report for the period 15 March 2015
to 14 September 2015

13 October 2015

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Section 1 Joint Administrators' progress report

Introduction

This is the fourteenth progress report by the Joint Administrators of LB UK RE Holdings Limited ("LB UK RE" or the "Company").

If any creditor requires copies of the previous thirteen reports these are available on the Administrators' website <http://www.pwc.co.uk/business-recovery/administrations/lehman/lb-uk-re-holdings-limited-in-administration.jhtml>. Alternatively, please contact Stephen Ingle at PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT.

This report provides details of the progress of the Administration in the six months to 14 September 2015 (the "Period").

LBHI proposal

At meetings of the creditors and members of LB UK RE held on 14 May 2015 a proposal for a company voluntary arrangement ("CVA") was approved. Under the terms of the CVA, those creditors not controlled by Lehman Brothers Holdings Inc ("LBHI") had their claims against LB UK RE compromised in exchange for a final top-up payment which took their cumulative dividend to 63 pence in the pound. On 30 July 2015 the top-up payments were made to non-LBHI controlled creditors, and the CVA was concluded.

The Administrators and the LBHI-controlled creditors (as the only remaining creditors) have subsequently agreed the terms pursuant to which ownership of LB UK RE's remaining assets is transferred to the LBHI controlled creditors by way of a distribution in specie. In the meantime LB UK RE remains in administration.

Creditors' Committee

The Administrators have continued to manage the administration in consultation with the Creditors' Committee, the last meeting having been held on 27 April 2015. Following the successful implementation of the CVA, however, Reed Smith Richards Butler LLP, Eldon Street Holdings Limited (in Administration), Lehman Brothers Europe Limited (in Administration) and Lehman Brothers Limited (in Administration) have had their membership of the Committee automatically

terminated, leaving LBHI as the only continuing member at the date of this report. A decision will be taken in due course as to the future constitution of the Committee.

Distributions to creditors

Final total cash distributions made in the Administration to all creditors with agreed claims totalled £649.6m, representing a cumulative dividend of 51.7 pence in the pound. Top up payments to non-LBHI controlled creditors under the terms of the CVA totalled £12.5m, taking the cumulative dividend to 63 pence in the pound. As mentioned above, LB UK RE's remaining assets are being transferred to the LBHI controlled creditors by way of a distribution in specie, with an estimated total value of £105.6m, taking the cumulative dividend paid to the LBHI-controlled creditors to approximately 60.6%.

Assets

Introduction

LB UK RE was principally involved in the management of investments in portfolios of sub-performing, non-performing and performing loans ("SNPLs") and in real estate. It also held other investments and shareholdings in companies and hedge funds ("Principal investments"), as well as various intercompany claims against other insolvent Lehman affiliates.

Please see previous progress reports for more detail in respect of the assets themselves, and the various asset collection strategies adopted by the Administrators.

Key progress in the Period

Loan portfolios

The Administrators secured collections from the SNPL portfolios during the Period of £0.6m. This brings the cumulative SNPL portfolio collections during the Administration to £297.5m.

Portuguese portfolio - the Administrators have:

Continued to monitor the status of the small number of remaining properties in LB UK RE's wholly owned real estate vehicle, Firstcity - Investimentos Imobiliários e Turísticos,

Unipessoal, Lda (“Firstcity”), as part of managing the wind-down of the vehicle.

German portfolio – the Administrators have:

- Continued to progress the dissolution of the securitisation structure, including:
 - Continuing liaison with multiple parties to the securitisation structure in preparing draft termination documentation that will dissolve the structure;
 - Formulating and developing potential strategies, in consultation with local tax and legal experts, for the efficient wind-down of the wholly owned German SPV entity; and
 - Commencing preparations for the release of remaining funds held within the securitisations structure and subsequent closure of bank accounts.

Polish portfolio – the Administrators have:

- Continued to actively direct, manage and monitor the collection activities of the local servicer, which is managing the collections from secured and unsecured corporate debtors;
- Reviewed and approved various loan settlement proposals negotiated by the local servicer; and
- Continued to investigate the optimal timing and method of closure of the portfolio, including the completion of a review of a sample of remaining loans to evaluate the local servicer’s estimate of future collections and to assist in determining the most suitable exit timing.

Belgian portfolio – the Administrators have:

- Continued to oversee and monitor the local servicer’s progress in making recoveries on a small number of residual assets where it is cost effective to do so.

Argentinian portfolio

- A small portfolio of loans continues to be serviced in Argentina and steady progress is being made in relation to collections. The Administrators have continued to evaluate options for the sale of the residual portfolio.

Real estate investments

The Administrators have realised £73.9m to date and £23.4m in the Period from real estate assets, as a result of:

- Selling investments or collecting and enforcing the repayment of loans with the following activity in the Period:
 - Sale of the earn-out deferred

consideration following the 2014 sale of the shares and shareholder loan in LB Dame sarl & Partners SCA realising a further €15.9m. The agreement also included the buyer waiving the original warranties releasing LB UK RE from a potential exposure of €13m; and

- Sale of the shares in Chancerygate Milton Keynes Limited realising £150k;
- Negotiating with the subsidiaries’ independent directors and liquidators to agree distributions from those subsidiaries, which during the Period resulted in:
 - Receipt of an interim distribution from Yellow Real Estate Limited of €15m;
 - An interim distribution of €750k from Calliope Finance s.r.l (“Calliope”); and
 - A final dividend of £27k from Health Properties (Bath) Limited;
- Selling investments or loans and enforcing the repayment of loans held by subsidiaries, which resulted in realisations of £24.9m to date. In the Period, assisted Calliope with selling its mezzanine loan receivable from Immobiliare Centro Milano S.P.A. for \$0.4m;
- Selling individual properties within portfolios to the value of £188m to date to prepay senior lenders and release cash to assist in servicing the remaining assets in the portfolios. In the Period, assisted Calliope on working with Meucci srl to identify a number of interested parties in the underlying properties;
- Refining the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis; and
- Negotiating and agreeing inter-company loan balances between LB UK RE’s subsidiaries and non-UK Administration companies, which in the Period resulted in the settlement of Mable Commercial Funding Limited’s claim against Calimmaco Finance s.r.l.

Principal investments

The Administrators have made significant realisations across all categories of Principal investments, having realised almost all of those that are within their control.

Total realisations for all principal investments to date are £362.6m, with recoveries in the Period totalling £9.5m.

The key receipt in the Period was a distribution totalling £9.0m from the Company's largest remaining external hedge fund investment. Further discussions with the fund manager also took place in respect of agreeing a strategy for closure of the fund.

A further distribution of \$0.7m was received in respect of the Company's investment in the Cirrus Master Fund.

In the Period, agreement in principle was also reached regarding the sale of the shares in Sator SpA. Dividends of €55k were also received from this company.

Inter-company claims

Since their appointment the Administrators have:

- Submitted claims in the estates of other Lehman entities by any relevant bar dates; and
- Concluded the detailed process of reviewing the complex underlying detail behind each inter-company relationship for both debtors and creditors.

A further interim dividend from Lehman Commercial Paper Inc. totalling \$220k was received in the Period.

Further small recoveries are expected from the existing inter-company debtor positions.

Following the claims agreement process in 2012, the Administrators have now agreed all of the inter-company creditor balances.

Future strategy

As set out above, LB UK RE's remaining assets are in the course of being transferred to the LBHI-controlled creditors. In the meantime the Administrators will continue to:

Loan portfolios

- Develop and implement final closure strategies and plans, where appropriate; and
- Monitor SNPL portfolio performance for the Polish, Belgian and Argentinian portfolios.

Real estate investments

- Manage the remaining real estate investments;
- Identify, negotiate and complete realisation opportunities where appropriate; and
- Work with and manage joint venture partners, local asset managers and letting agents to improve the performance and value of the

assets.

Principal investments

- Manage the investments; and
- Realise the remaining investments when appropriate.

Inter-company claims

- Monitor the remaining inter-company debtor positions, recovering dividends as appropriate.

Taxation issues

The corporation tax return for the period ended 14 September 2014 has been drafted and will be filed with HM Revenue and Customs ("HMRC") shortly. The enquiry window is now closed for all periods up to 14 September 2012, with substantial losses being carried forward to set-off against future trading profits. Amounts of £6.1m and £5.6m have been recovered to date in respect of corporation tax repayments and group relief respectively. Further recoveries for group relief for subsequent periods may be available, but these have yet to be finalised. Opportunities to sell losses to other group companies are being explored, however, these are not likely to be material. The main work undertaken in the Period has been in respect of:

- Ongoing work with LBHI in respect of the CVA;
- Review of Foreign Account Tax Compliance Act status to ensure compliance with US regulatory requirements;
- Ongoing review of tax controls to ensure compliance with the Senior Accounting Officer legislation as required by Paragraph 2 Schedule 46 of Finance Act 2009; and
- Calculation of tax provisions required to be held for dividend purposes.

To date, Value Added Tax ("VAT") totalling £6.2m has been repaid to LB UK RE. In the Period, a VAT repayment totalling £0.1m has been received in respect of the VAT return period ended 31 August 2014. VAT repayments of approximately £0.1m for the 30 November 2014 and 28 February 2015 VAT returns have been received by the VAT group representative member and will be distributed to LB UK RE shortly. A claim for £0.1m of VAT for the 31 May 2015 VAT return has been submitted to HMRC and has not yet been approved.

Future reports

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



D Y Schwarzmann

Joint Administrator

LB UK RE Holdings Limited

DY Schwarzmann, AV Lomas, SA Pearson, and JG Parr have been appointed as Joint Administrators of LB UK RE Holdings Limited. The Joint Administrators were appointed to manage the Company's affairs, business and property as agents without personal liability.

DY Schwarzmann, AV Lomas, SA Pearson, and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators 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 Administration.

*The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

Section 2 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>Date of the Administration appointment:</i>	15 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson, and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT.
<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) Schedule B1 of the Insolvency Act 1986, 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 2016.
<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>Dividend for unsecured creditors:</i>	As set out earlier in this report, non-LBHI controlled creditors have received 63 pence in the pound in total from LB UK RE. LBHI-controlled creditors have received 51.7 pence in the pound in cash along with the remaining assets of LB UK RE by way of a distribution in specie, taking the cumulative dividend of the LBHI-controlled creditors to approximately 60.6%.
<i>Estimated values of LB UK RE's net property and the prescribed part:</i>	In the absence of qualifying floating charges, The Insolvency Act 1986 (Prescribed Part) Order 2003 does not apply to these proceedings.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable.
<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 3 Joint Administrators' remuneration

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

The Committee resolved that the basis of the Administrators' remuneration be fixed by reference to the time properly given by the Administrators and their staff in attending to matters arising in the Administration. Accordingly the Committee has been provided with an account of the time spent and the relevant charge-out rates, together with additional information setting out the approach to the project and key milestones.

During the Period, pursuant to the resolution agreed by the Committee in February 2012, the Joint Administrators have drawn remuneration of £1.5m plus VAT, including remuneration of £1.2m plus VAT in respect of 75% of their time costs on account from 1 February 2015 to 31 July 2015.

At a meeting of the Committee held on 27 April 2015, the Committee approved the Administrators' time costs for the period 1 July 2014 to 31 December 2014 totalling £1.2m plus VAT plus Category 2 disbursements totalling £167.07 plus VAT.

The time cost analysis and narratives for the period from 1 January 2015 to 30 June 2015 have been submitted to the remaining member of the Committee.

The Administrators have drawn remuneration of £47.4m plus VAT in total since the commencement of the Administration.

Additional analysis of Administrators' remuneration

The table below provides an analysis of the total hours and cost by grade in respect of the period 1 January 2015 to 30 June 2015.

Grade	Hours	Costs (£)
Partner	88.9	82,890
Director	181.7	138,905
Senior manager	727.9	450,742
Manager	1,177.2	525,190
Senior associate	712.7	196,401
Associate	452.9	100,239
Total	3,341.3	1,494,367

The following table provides a further analysis of the total hours and costs incurred by activity:

Activity	Hours	Costs (£)
Working assets/realisations	1,155.4	520,457
Strategy, administration, planning and compliance	1,017.9	441,318
Tax and VAT	528.0	339,750
Creditors, intercompany and LB UK RE group companies	70.3	29,762
Accounting & treasury	454.3	127,003
Central services	115.4	36,077
Total	3,341.3	1,494,367

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 September 2015, and the cumulative total since commencement of the Administration, is set out in Section 4 of this report.

Significant receipts in the Period include:

- £23.4m in respect of real estate investments; and
- £9.5m in respect of realisations from the Principal investments.

Significant payments in the Period are:

- £26.1m in respect of payments to LBHI under the terms of the asset transfer agreement;
- A £12.5m transfer in respect of the CVA in order to facilitate the top-up payments to non-LBHI creditors; and
- £9.6m in respect of catch-up distributions to unsecured creditors.

Cash held as at 14 September 2015 totals £24.3m (GBP equivalent).

Section 4 Receipts and payments

RECEIPTS	As at 14 September 2015			As at	Movements	As at	As at
	GBP (£)	US (\$)	EUR (€)	14 September 2015	from 15 March 2015 to	14 March 2015	14 March 2015
	mil	mil	mil	TOTAL GBP equivalent	14 September 2015	RESTATED	As at
				GBP (£)	(GBP equivalent)	at 14 September 2015	(GBP equivalent)
						exchange rate	14 March 2015
							(GBP equivalent)
							GBP (£)
							mil
SNPL recoveries	2.7	58.0	350.1	297.5	0.6	296.9	291.1
Real Estate recoveries	15.3	2.2	77.9	73.9	23.4	50.5	49.5
Principal investments	69.3	236.7	190.5	362.6	9.5	353.1	356.1
Other recoveries	0.8	-	-	0.8	-	-	0.8
Distributions received	43.4	5.4	-	46.9	0.1	46.8	47.0
Internal currency transfer	645.8	2.7	1.8	648.7	1.0	647.7	647.8
Corporation Tax repayments	11.7	-	-	11.7	0.2	11.5	11.5
VAT repayments	6.2	-	-	6.2	0.1	6.1	6.1
Interest	0.9	0.9	2.8	3.6	0.1	3.5	3.5
Receipts grand totals	796.1	305.9	623.1	1,451.9	35.0	1,416.9	1,413.4
PAYMENTS							
Building and occupancy costs	5.2	-	0.1	5.3	0.1	5.2	5.2
Payroll and employee costs	17.7	-	3.5	20.3	0.5	19.8	19.8
Legal fees	17.2	-	1.0	17.9	1.2	16.7	16.7
Insurance premiums	2.2	-	0.2	2.3	-	2.3	2.3
Principal investments	-	0.3	-	0.2	-	0.2	0.2
Acquisition of Portuguese loan portfolio	-	-	7.3	5.4	-	5.4	5.2
Office holders' remuneration	56.8	-	-	56.8	1.9	54.9	54.9
Office holders' disbursements	0.3	-	-	0.3	-	0.3	0.3
Other professional fees	4.8	-	2.1	6.3	-	6.3	6.2
Distribution to unsecured creditors	649.6	-	-	649.6	9.6	640.0	640.0
Legal settlement	-	0.1	-	0.1	0.1	-	-
Real Estate valuation costs	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	4.0	2.9	-	2.9	2.9
Portuguese tax liability	-	-	1.7	1.2	-	1.2	1.2
Bonus payments in relation to Portuguese assets	-	-	5.7	4.2	-	4.2	4.1
Internal currency transfer	3.3	304.7	565.4	616.0	0.9	615.1	612.2
LBHI - asset transfer agreement	4.2	-	29.8	26.1	26.1	-	-
Transfer to CVA	12.5	-	-	12.5	12.5	-	-
Payments grand totals	774.0	305.1	620.8	1,427.6	52.9	1,374.8	1,371.4
NET POSITION	22.1	0.8	2.3	24.3	(17.9)	42.1	42.0
CASH BALANCES							
HSBC	2.3	0.8	2.3	4.5			
Bank of New York	2.7	-	-	2.7			
Money markets	17.1	-	-	17.1			
Total cash	22.1	0.8	2.3	24.3			

Exchange rate as at 14 March 2015

US\$ 1 : GBP	0.6779
EURO €1 : GBP	0.7132

Exchange rate as at 14 September 2015

US\$ 1 : GBP	0.6480
EURO €1 : GBP	0.7345

Amounts include VAT where applicable

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