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

Joint Administrators' progress
report for the period 15 September
2015 to 14 March 2016

13 April 2016

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Section 1 Joint Administrators' progress report

Introduction

This is the fifteenth 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 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 March 2016 (the "Period").

Residual asset distributions

As set out in the previous report, pursuant to the terms of a company voluntary arrangement approved on 14 May 2015 ("CVA"), the claims of non Lehman Brothers Holdings Inc ("LBHI") controlled creditors were compromised in exchange for a final top-up payment.

The Administrators and the LBHI-controlled creditors, being the only remaining creditors of the Company, 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, and entered into a residual assets transfer agreement (the "RATA") to effect this.

Throughout the Period, the Administrators have been working closely with the LBHI-controlled creditors to prepare for the final transfer of certain assets pursuant to the RATA and also to determine the most appropriate closure/realisation strategy for each of the remaining assets in the interim. In the meantime LB UK RE remains in administration.

Creditors' Committee

As set out in the previous report, LBHI was left as the only continuing member of the committee following the successful implementation of the CVA.

Subsequently, during the Period, certain of the LBHI-controlled creditors assigned their claims to LBHI and, as a result of these assignments, there are now only two remaining creditors of the Company in total. As a creditor's committee requires a minimum of three members, the committee has been disbanded.

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 £0.8m. This brings the cumulative SNPL portfolio collections during the Administration to £314.1m.

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:
 - Liaising with multiple parties to the securitisation structure in updating draft termination documentation that will dissolve the structure;

- Liaising with providers of services to the securitisation structure in relation to the cessation of service contracts;
- Considering a number of potential strategies for the efficient wind-down of the wholly owned German SPV entity, in consultation with local tax and legal experts and key stakeholders; and
- Securing the release of remaining funds held within the securitisation structure and arranging for the 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
- Liaised with the issuer of the fund certificates, LBHI-controlled creditors and legal experts to enable the efficient transfer of the remaining portfolio assets to LBHI-controlled creditors.

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; and
- Liaised with the LBHI-controlled creditors in arranging for the efficient transfer of portfolio assets.

Argentinian portfolio - the Administrators have:

- Continued to service a small portfolio of loans in Argentina and made steady progress in relation to collections;
- Continued to evaluate options for the sale of the residual portfolio; and
- Liaised with the LBHI-controlled creditors in arranging for the efficient transfer of portfolio assets.

Real estate investments

The Administrators have realised £77.9m to date and £0.7m in the Period from real estate assets, as a result of:

- Negotiating with the subsidiaries' independent directors and liquidators to agree distributions from those subsidiaries, which during the Period resulted in:

- An interim distribution of €500k from Calliope Finance s.r.l (“Calliope”);
- An interim distribution from the Catullo Fund, which resulted in an interim distribution from Dyra S.a.r.l to the Company of €102k; and
- A final distribution from Schimmelpfeng S.a.r.l in the amount of €159k;
- Selling investments or loans and enforcing the repayment of loans held by subsidiaries, which resulted in realisations of £24.9m to date;
- 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 with negotiating the sale of the properties owned by Meucci srl, which is due to complete on 5 May 2016; and
 - Worked with the joint venture partner to sell the properties owned by Kenmore Office Properties SAS, which is due to complete shortly.
- Working with the loan servicer for an Italian real estate fund to change the servicing team and legal representative, including changing the loan servicing approach and calling a noteholders' meeting to discuss and agree the proposed performance initiatives and extend the maturity date of the notes;
- Working with local lawyers in Spain to agree a €950k tax refund with the local tax authorities in respect of tax paid by Morazan Inversiones S.L. The tax refund has been agreed in principle but not yet received by LB UK RE; and
- Refining the necessary processes and resources to manage the real estate investment portfolio on a day-to-day basis, including dealing with the departure of one of the Lehman employees who was appointed as director of a number of subsidiaries.

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 £381.5m, with recoveries in the Period totalling £0.1m.

In the Period, an initial payment of €50k was received in connection with the sale of the shares in Sator SpA.

Residual funds totalling \$32k were also received from the former investment in RAB Market Cycles Fund Limited.

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.

Further small recoveries are expected from the one remaining inter-company debtor position.

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 one remaining inter-company

debtor position, recovering dividends as appropriate.

Taxation issues

The corporation tax return for the period ended 14 September 2014 has been filed with HM Revenue and Customs ("HMRC"). The enquiry window is now closed for all periods up to 14 September 2013, 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. The main work undertaken in the Period has been in respect of:

- Tax planning in relation to closure of the German SNPL securitisation structure, including liaison with PwC Germany to discuss potential cross border issues;
- Tax analysis of assets being transferred under the RATA to ensure that transactions are carried out tax efficiently, including consideration of the implications of the transfer of the Polish SNPL fund certificates and tax advice in respect of the transfer of certain assets to an overseas custody account, including analysis of withholding tax implications;
- Review of the agreements in respect of the proposed sale of Kyra S.a.r.l and analysis of the tax implications for LB UK RE;
- 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 and ongoing advice around when different elements of the provision can be released.

To date, Value Added Tax ("VAT") totalling £6.5m has been repaid to LB UK RE. This includes VAT repayments within the Period of £0.3m being received in respect of the VAT returns for periods ended 31 May 2015 and 31 August 2015. VAT repayments of approximately £0.3m for the 30 November 2014, 28 February 2015 and 30 November 2015 VAT returns have been received by the VAT group representative member and are in the process of being distributed.

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 currently envisage that, following the transfer of the residual assets to LBHI, a notice will be submitted to the Registrar of Companies pursuant to Paragraph 84 of Schedule B1 to the Insolvency Act 1986 to move LB UK RE from administration to dissolution. However, the Administrators reserve their rights in relation to other options available to them.
<i>Dividend for unsecured creditors:</i>	Non LBHI-controlled creditors have received 63 pence in the pound in total from LB UK RE. LBHI-controlled creditors should ultimately receive dividends of approximately 60.6%, consisting of both cash and the remaining assets of LB UK RE by way of a distribution in specie.
<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

As set out in Section 1 of this report the Company no longer has a creditors' committee.

Consequently, the approval of Administrators' remuneration for the period 1 January 2015 to 30 June 2015, totalling £1.5m plus VAT, was carried out by way of a written resolution of creditors as a whole under Section 2.48 of the Insolvency Rules 1986, dated 3rd December 2015. It is the intention of the Administrators to use the same approach when seeking future approvals of their remuneration.

In order to approve the Administrators' remuneration, the two remaining creditors will receive an account of the time spent and the relevant charge-out rates in an identical format to that previously provided to the committee.

During the Period, the Administrators' have drawn remuneration of £1.3m plus VAT, including remuneration of £0.9m plus VAT in respect of 75% of their time costs on account from 1 August 2015 to 31 January 2016.

The time cost analysis and narratives for the period from 1 July 2015 to 31 December 2015 will be submitted to the two remaining creditors along with such further information that the remaining creditors require the Administrators to provide, taking into account the requirements of the new Statement of Insolvency Practice No.9 governing the disclosure of insolvency office holders' time costs and expenses, which became effective on 1 December 2015.

The Administrators have drawn remuneration of £48.7m 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 July 2015 to 31 December 2015.

Grade	Hours	Costs (£)
Partner	59	42,903
Director	139	98,406
Senior manager	594	373,413
Manager	1,319	599,354
Senior associate	376	111,670
Associate	421	121,920
Total	2,908	1,347,666

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

Activity	Hours	Costs (£)
Working assets/realisations	1,383	671,963
Strategy, administration, planning and compliance	743	312,752
Tax and VAT	320	207,827
Creditors, intercompany and LB UK RE group companies	69	30,117
Accounting & treasury	292	91,354
Central services	101	33,653
Total	2,908	1,347,666

Creditors' rights

Creditors have the right to ask for information and challenge an administrator's fees if they believe that they are too high. An explanatory note may be found online at:

<http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx>

A copy may be obtained by creditors free of charge by telephoning Stephen Ingle on +44 (0) 207 212 6111.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 March 2016, and the cumulative total since commencement of the Administration, is set out in Section 4 of this report.

Significant receipts in the Period include:

- £0.8m in respect of realisations from the SNPL portfolios; and
- £0.7m in respect of real estate investments.

Significant payments in the Period are:

- £2.9m in respect of payments to LBHI under the terms of RATA; and
- £1.5m in respect of Administrators' remuneration.

Cash held as at 14 March 2016 totals £19.6m (GBP equivalent).

Section 4 Receipts and payments

	As at 14 March 2016			TOTAL GBP equivalent	Movements from 14 September 2015 to 14 March 2016 (GBP equivalent)		As at 14 September 2015 (GBP equivalent) RESTATED at 14 March 2016 exchange rate	As at 14 September 2015 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)		GBP (£)	GBP (£)	GBP (£)	GBP (£)
RECEIPTS								
	mil	mil	mil	mil	mil	mil	mil	mil
SNPL recoveries	1.8	58.0	351.1	314.1	(0.1) *	314.2	297.5	
Real estate recoveries	15.3	2.2	78.8	77.9	0.7	77.2	73.9	
Principal investments	69.3	236.7	190.6	381.5	0.1	381.4	382.6	
Other recoveries	0.8	-	-	0.8	-	0.8	0.8	
Distributions received	43.4	5.4	-	47.2	-	47.2	46.9	
Internal currency transfer	646.5	2.7	1.8	649.8	0.7	649.1	648.7	
Corporation Tax repayments	11.7	-	-	11.7	-	11.7	11.7	
VAT repayments	6.5	-	-	6.5	0.3	6.2	6.2	
Interest	1.0	0.9	2.8	3.8	0.1	3.7	3.6	
Receipts Grand Totals	796.3	305.9	625.1	1,493.3	1.8	1,491.5	1,451.9	
PAYMENTS								
Building and occupancy costs	5.3	-	0.1	5.4	0.1	5.3	5.3	
Payroll and employee costs	17.9	-	3.8	20.8	0.4	20.4	20.3	
Legal fees	18.0	-	1.0	18.7	0.6	18.1	17.9	
Insurance premiums	2.2	-	0.2	2.4	-	2.4	2.3	
Principal investments	-	0.3	-	0.2	-	0.2	0.2	
Acquisition of Portuguese loan portfolio	-	-	7.3	5.7	-	5.7	5.4	
Office holders' remuneration	58.3	-	-	58.3	1.5	56.8	56.8	
Office holders' disbursements	0.3	-	-	0.3	-	0.3	0.3	
Other professional fees	4.8	-	2.1	6.4	-	6.4	6.3	
Distribution to unsecured creditors	649.6	-	-	649.6	-	649.6	649.6	
Legal Settlement	-	0.1	-	0.1	-	0.1	0.1	
Real Estate valuation costs	0.2	-	-	0.2	-	0.2	0.2	
Firstcity credit facility	-	-	4.0	3.1	-	3.1	2.9	
Portuguese tax liability	-	-	1.7	1.3	-	1.3	1.2	
Bonus payments in relation to Portuguese assets	-	-	5.7	4.4	-	4.4	4.2	
Internal currency transfer	3.3	305.4	566.0	654.1	1.0	653.1	616.0	
LBH- pursuant to the RATA	6.1	-	31.1	30.2	2.9	27.3	26.1	
Transfer to CVA	12.5	-	-	12.5	-	12.5	12.5	
Payments Grand Totals	778.5	305.8	623.0	1,473.7	6.5	1,467.2	1,427.6	
NET POSITION	17.8	0.1	2.1	19.6	(4.7)	24.3	24.3	
CASH BALANCES								
HSBC	16.1	0.1	2.1	17.9				
Bank of New York	1.7	-	-	1.7				
Money markets	-	-	-	-				
Total Cash	17.8	0.1	2.1	19.6				
Exchange rate as at 14 September 2015								
US\$ 1 : GBP	0.6480							
EURO €1 : GBP	0.7345							
Exchange rate as at 14 March 2016								
US\$ 1 : GBP	0.6951							
EURO €1 : GBP	0.7748							

Amounts include VAT where applicable

* Negative movement is due to foreign exchange movements in the period. Argentinian Peso SNPL recoveries are, for simplicity, included within the GBP SNPL recoveries total. Argentinian Pesos depreciated against GBP in the period. The Argentinian Pesos are held in an account in Argentina and, due to currency controls are currently not available to be repatriated to the UK.

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