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

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

12 October 2016

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Section 1 Joint Administrators' progress report

Introduction

This is the sixteenth 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 September 2016 (the "Period").

Residual asset distributions

As previously reported, the terms pursuant to which ownership of LB UK RE's remaining assets is transferred to creditors controlled by LBHI ("Lehman Brothers Holdings Inc") (being the only remaining creditors of the Company), were agreed by way of a residual assets transfer agreement ("RATA"). During the Period the Administrators and the LBHI-controlled creditors have continued to work closely to determine the most appropriate closure/realisation strategy for each of the remaining assets. In the meantime LB UK RE remains in administration.

Extending the administration

Pursuant to an Order of the High Court dated 2 November 2011, the Court extended the terms of office of the Administrators to 30 November 2016. It is the view of the Administrators that the work to finalise the position in respect of the remaining assets will run beyond 30 November 2016, and that this work would be best achieved by remaining in administration. As such, it is the current intention of the Administrators to apply to the Court to extend the term of the administration by one year to 30 November 2017. The Administrators have communicated to the remaining two creditors of LB UK RE that they intend to make this application. Notwithstanding the planned application above, preparatory work has taken place in connection with the legal and other operational steps required

to bring about the closure of the administration and dissolution of the Company.

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 £1.6m. This brings the cumulative SNPL portfolio collections during the administration to £344.4m.

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"), whilst exploring a potential sale of the business; and
- Liaised with the LBHI-controlled creditors in arranging the transfer of a single loan asset.

German portfolio – the Administrators have:

- Completed the transfer of the securitisation notes to another Lehman affiliate in order to facilitate their efficient disposal;
- Liaised with legal experts and key stakeholders to determine the appropriate approach to the discharge of an indemnity provided to one of the parties to the securitisation structure;
- Issued a notice to the holder of the indemnity

advising of the Administrators' intention to bring the administration of LB UK RE to an end, and seeking confirmation that they have no outstanding claims under the indemnity;

- Continued to progress the closure of elements of the securitisation structure for which LB UK RE has contractual or ownership responsibilities, including:
 - Considering 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;
 - Liaising with the management services provider for the wholly owned German SPV entity regarding the cessation of the services contract;
 - Seeking a binding ruling from the German tax authorities in order to ascertain the tax position of the wholly owned German SPV entity and clarify available options for its closure; and
 - Commencing initial planning for the liquidation of the wholly owned German SPV entity.

Polish portfolio – the Administrators have:

- Completed the transfer of LB UK RE's rights in relation to the Polish investment portfolio assets to the LBHI-controlled creditors in May 2016.

Belgian portfolio – the Administrators have:

- Completed the transfer of LB UK RE's rights in relation to the small number of residual Belgian assets to the LBHI-controlled creditors in April 2016.

Argentinian portfolio - the Administrators have:

- Continued to service a small portfolio of loans in Argentina and made steady progress in relation to collections; and
- Liaised with the LBHI-controlled creditors regarding options for selling the residual portfolio and exploring the most efficient method to transfer the portfolio assets.

Real estate investments

The Administrators have realised £89.1m to date and £5.6m in the Period from real estate assets, as a result of:

- 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 £57m in the Period, £245m in total 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 the final negotiations of the sale of the properties owned by Meucci S.r.l. which completed in May 2016;
 - Worked with the subsidiary managers with respect to Kyra S.a.r.l. selling its interest in the Redwood fund, which completed in March 2016; and
 - Worked with the joint venture partner to exchange contracts in July 2016 to sell the properties indirectly owned by Tamar Office Properties SAS (formerly Kenmore Office Properties SAS), which completed on 27 September 2016.

In addition, the Administrators have:

- Negotiated with the subsidiaries' independent directors and liquidators to agree distributions from those subsidiaries, which during the Period resulted in:
 - An interim distribution of €2.7m from Calliope Finance S.r.l. ("Calliope") from the sale proceeds of the properties owned by Meucci S.r.l.;
 - An interim distribution from Yellow Real Estate Limited of £2.6m; and
 - An interim distribution from Kyra S.a.r.l. of €280k;
- Received the remaining proceeds of €400k from the sale of the shares in Sator S.p.A.
- Liaised with the LBHI-controlled creditors in arranging for the efficient transfer of:
 - Blue I Real Estate Limited shares (completed);
 - Calliope shares and shareholder loans (completed);
 - Cirene Deferred Purchase Price (commenced);
 - Cirene Finance S.r.l. ("Cirene") F note (completed);
 - Dyra S.a.r.l. shares and shareholder loan (commenced);

- Investrev Limited shares and shareholder loans (commenced);
- Kenmore French Office Properties S.a.r.l. shares and shareholder loans (commenced);
- LB Yellow (No.1) Limited shares (completed); and
- Yellow Real Estate Limited (completed).

Where appropriate, work included negotiating and drafting the transfer or assignment documents, agreeing and finalising third party consent documents, completing and signing stock transfer forms, finalising and sending all required notices, providing any required Powers of Attorney, attending to all notary meetings and dealing with subsidiary director resignations; and

- Refined the necessary processes and resources to manage, and ensure compliance of, the real estate investment portfolio on a day-to-day basis, including dealing with the departure of one of the Lehman employees who was, prior to her departure, a director of a number of subsidiaries.

Principal investments

Total realisations for all Principal investments to date are £409.1m, with recoveries in the Period totalling £0.1m.

In the Period, a final distribution of \$146k was received from the Cirrus Master Fund.

Additionally, in the Period, LB UK RE's shareholding in CIG Pannonia Eletbiztosító Nyrt was transferred to the LBHI-controlled creditors.

As a consequence of the above, all work in respect of the Principal investments has now been completed.

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 dividend of £640 was received in respect of the remaining inter-company debtor position. The

debtor company has been instructed to pay any future dividends to the LBHI-controlled creditors. No further work is therefore required in respect of inter-company claims.

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 Argentinian portfolio.

Real estate investments

- Manage the remaining real estate investments;
- Identify, negotiate and complete realisation opportunities, including up-streaming of dividends, 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.

Taxation issues

The corporation tax return for the period ended 14 September 2015 was filed with HM Revenue and Customs ("HMRC") in June 2016 and the final corporation tax return for the period ended 30 June 2016, along with a tax clearance request, was filed on 2 September 2016. The enquiry window is now closed for all periods up to 14 September 2013, with substantial losses accrued in the final submitted tax return. A payment of £0.3m was received in the Period in respect of group relief surrendered for 2014. To date amounts of £6.1m and £5.9m have been recovered in respect of corporation tax repayments and group relief respectively. The main work undertaken in the Period has been in respect of:

- Preparation, review and submission of the 2015 and 2016 tax returns for LB UK RE, including assisting the Lehman tax team with collation of the relevant information and analysing the tax treatment of the various transactions undertaken in the Period;
- Assistance in respect of the tax requirements for closure of the administration, including

drafting and submitting the corporation tax clearance application to HMRC;

- Continued work on the 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 assets to a non-UK company, the transfer of trust certificates located in Argentina and the transfer of Yellow Real Estate Limited, Blue 1 Real Estate Limited and LB Yellow (No.1) Limited to the LBHI-controlled creditors;
- Liaising with PwC Italy on the potential tax implications of the proposed transfer of Italian loan notes;
- Further work in respect of the tax planning on the closure of the German SNPL securitisation structure;
- Review of the agreements in respect of the sale of Tamar Office Properties SAS, including liaising with PwC France and analysis of the tax implications;
- Review of various documents in respect of the transfer of Calliope and analysis of the tax implications;
- Review of the agreements relating to the proposed sale of Firstcity and analysis of the tax implications;
- Responding to Foreign Account Tax Compliance Act status requests to ensure compliance with US regulatory requirements; and
- 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.

September 2016. A final VAT return covering the period to 31 August 2016 is currently being prepared. LB UK RE will be able to recover input VAT incurred post de-registration by submitting a claim directly to HMRC.

To date, Value Added Tax ("VAT") totalling £6.8m has been repaid to LB UK RE. This includes VAT repayments within the Period received in respect of the VAT returns for periods ended 30 November 2015 and 29 February 2016. The repayment in respect of the period ended May 2016 totalling £0.1m has been received by the representative member and will be distributed to LB UK RE shortly.

In anticipation of the closure of the administration, the relevant forms have been submitted to HMRC for LB UK RE to be removed from the VAT group and de-registered for VAT with effect from 1

Future reports

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



D Y Schwarzmans

Joint Administrator

LB UK RE Holdings Limited

DY Schwarzmans, 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 Schwarzmans, 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>	7 More London Riverside, London SE1 2RT, 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 on the application of LB UK RE's directors.
<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. A further extension is being sought.
<i>Proposed end of the administration:</i>	The Administrators currently envisage that, following the disposal or transfer of the residual assets to the LBHI-controlled creditors, 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

The approval of Administrators' remuneration for the period 1 July 2015 to 31 December 2015, totalling £1.3m 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 1 July 2016.

During the Period, the Administrators have drawn remuneration of £1.4m plus VAT, including remuneration of £1.1m plus VAT in respect of 75% of their time costs on account from 1 February 2016 to 31 July 2016.

The time cost analysis for the period from 1 January 2016 to 30 June 2016 has been 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 £50.1m 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 2016 to 30 June 2016.

Grade	Hours	Costs (£)
Partner	76	66,630
Director	168	136,679
Senior manager	1,088	693,945
Manager	1,178	530,334
Senior associate	774	201,426
Associate	133	27,739
Total	3,417	1,656,753

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

Activity	Hours	Costs (£)
Working assets/realisations	1,729	910,623
Strategy, administration, planning and compliance	396	156,943
Tax and VAT	474	292,746
Creditors, intercompany and LB UK RE group companies	379	160,423
Accounting & treasury	300	91,959
Central services	139	44,059
Total	3,417	1,656,753

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 September 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:

- £5.6m in respect of real estate investments; and
- £1.6m in respect of realisations from the SNPL portfolios.

Significant payments in the Period include:

- £9.7m in respect of payments to the LBHI-controlled creditors under the terms of RATA; and
- £1.7m in respect of Administrators' remuneration.

Cash held as at 14 September 2016 totals £15.1m (GBP equivalent).

Section 4 Receipts and payments

	As at 14 September 2016			As at 14 September 2016 TOTAL GBP equivalent	Movements from 15 March 2016 to 14 September 2016 (GBP equivalent)	As at 14 March 2016 (GBP equivalent) RESTATED at 14 September 2016 exchange rate	As at 14 March 2016 (GBP equivalent)
	GBP (£) mil	US (\$) mil	EUR (€) mil	GBP (£) mil	GBP (£) mil	GBP (£) mil	GBP (£) mil
RECEIPTS							
SNPL recoveries	2.0	60.0	351.1	344.4	1.6	342.8	314.1
Real estate recoveries	17.9	2.2	82.2	89.1	5.6	83.5	77.9
Principal investments	69.3	236.9	190.7	409.1	0.1	409.0	381.5
Other recoveries	0.8	-	-	0.8	-	0.8	0.8
Distributions received	43.4	5.4	0.0	47.5	-	47.5	47.2
Internal currency transfer	646.5	2.7	1.8	650.0	-	650.0	649.8
Corporation Tax repayments	12.0	-	-	12.0	0.3	11.7	11.7
VAT repayments	6.8	-	-	6.8	0.3	6.5	6.5
Interest	1.0	0.9	2.8	4.1	-	4.1	3.8
Receipts Grand Totals	799.7	308.0	628.7	1,563.8	7.9	1,555.9	1,493.2
PAYMENTS							
Building and occupancy costs	5.3	-	0.1	5.4	-	5.4	5.4
Payroll and employee costs	18.0	-	4.5	21.8	0.7	21.1	20.8
Legal fees	18.3	-	1.1	19.2	0.4	18.8	18.7
Insurance premiums	2.2	-	0.2	2.4	-	2.4	2.4
Principal investments	-	0.3	-	0.2	-	0.2	0.2
Acquisition of Portuguese loan portfolio	-	-	7.3	6.2	-	6.2	5.7
Office holders' remuneration	60.1	-	-	60.1	1.7	58.3	58.3
Office holders' disbursements	0.3	-	-	0.3	-	0.3	0.3
Other professional fees	4.8	-	2.2	6.7	0.1	6.6	6.4
Distribution to unsecured creditors	649.6	-	-	649.6	-	649.6	649.6
Legal Settlement	-	0.1	0.2	0.2	0.1	0.1	0.1
Real Estate valuation costs	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	4.0	3.4	-	3.4	3.1
Portuguese tax liability	-	-	1.7	1.4	-	1.4	1.3
Bonus payments in relation to Portuguese assets	-	-	5.7	4.8	-	4.8	4.4
Internal currency transfer	3.3	305.2	566.0	712.2	-	712.2	654.1
LBHL- pursuant to the RATA	11.5	2.3	34.1	42.1	9.7	32.4	30.2
Transfer to CVA	12.5	-	-	12.5	-	12.5	12.5
Payments Grand Totals	786.1	307.9	627.1	1,548.7	12.7	1,536.0	1,473.7
NET POSITION	13.6	0.1	1.6	15.1	(4.8)	19.9	19.5
CASH BALANCES							
HSBC	11.7	0.1	1.6	13.2			
Citibank	1.9	-	-	1.9			
Money markets	-	-	-	-			
Total Cash	13.6	0.1	1.6	15.1			
Exchange rate as at 14 March 2016							
	US\$ 1 : GBP	0.6951					
	EURO €1 : GBP	0.7748					
Exchange rate as at 14 September 2016							
	US\$ 1 : GBP	0.7534					
	EURO €1 : GBP	0.8462					

Amounts include VAT where applicable

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