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

Joint Administrators' progress
report for the period 15 March 2018
to 14 September 2018

4 October 2018

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Section 1 Joint Administrators' progress report

Introduction

This is the twentieth progress report by the joint administrators ("Joint Administrators" or "Administrators") of LB UK RE Holdings Limited (In Administration) ("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 2018 (the "Period").

Residual asset distributions

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

Extending the administration

As previously reported, pursuant to an Order of the High Court dated 29 November 2017, the Court extended the Administrators' terms of office by one year to 30 November 2018. However, the process of dealing with the residual assets has proved to be more complex and time-consuming than was previously anticipated. It is therefore the Administrators' view that the work to finalise the position in respect of the Company's remaining assets, and deal with the legal and other operational matters required to bring closure of the administration and dissolution of the Company will run beyond 30 November 2018, and that this work would be best achieved by the Company remaining

in administration. As a result, the Administrators intend to apply to Court to extend the administration for a further year to 30 November 2019. The Administrators have communicated to the remaining two creditors of LB UK RE that they intend to make this application.

Change of Administrators

AV Lomas, SA Pearson and JG Parr, three of the Joint Administrators as at the date of the last progress report to creditors, have either retired, will shortly be retiring, or have taken on different roles within PricewaterhouseCoopers LLP. To make sure that outstanding issues in the administration could continue to be pursued, an application was made to the Court to remove them and appoint EJ Macnamara, GE Bruce and R Downs as Joint Administrators. EJ Macnamara, GE Bruce and R Downs are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The application was granted and so EJ Macnamara, GE Bruce and R Downs replaced AV Lomas, SA Pearson and JG Parr as Joint Administrators with effect from 16 July 2018. AV Lomas, SA Pearson and JG Parr were released from all liability in respect of their conduct as Joint Administrators on 15 August 2018, no applications having been made to the Court by creditors to vary or discharge the relevant Court order.

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 have secured collections from the SNPL portfolios during the administration of £362.7m.

German portfolio – the Administrators have:

- In conjunction with key stakeholders, continued to progress the closure of elements of the securitisation structure for which LB UK RE has contractual or ownership responsibilities, including:
 - Liaising with LBHI in relation to the release of the indemnity granted to one of the parties to the securitisation structure; and
 - Liaising with LBHI in relation to ongoing costs of both the management services provider and the party to the securitisation structure, relating to the wholly owned German SPV entity, and ensuring that sufficient funds are available until closure.

Argentinian portfolio - the Administrators have:

- Continued to service the tail end of a small portfolio of loans in Argentina and made steady progress in relation to collections;
- Continued to liaise with LBHI regarding options for selling the residual portfolio and exploring the most efficient method to transfer the portfolio assets. As a result, and further to ongoing negotiations with key third parties in Argentina, £2.1m was successfully recovered by LB UK RE in the Period; and
- Reached settlement in respect of a non-performing commercial loan, resulting in a recovery of £15k to LB UK RE.

Real estate investments

The Administrators have realised £93.5m to date from real estate assets, as a result of:

- Selling investments or loans and enforcing the repayment of loans held by subsidiaries, which has resulted in realisations of £24.9m to date;
- Selling individual properties within portfolios to the value of £268m to date to prepay senior lenders and release cash to assist in servicing the remaining assets in the portfolios. In the Period the Administrators have:
 - Liaised with LBHI to complete the various acknowledgements in connection with the

transfer of the Guadelete Investments S.a.r.l. shares and shareholder loan; and

- Worked with our joint venture partners to complete the sale of Investrev Limited's remaining asset and to resolve an outstanding issue with a third party.

In addition, the Administrators have:

- Liaised with LBHI and the LBHI-controlled creditors in arranging for the efficient transfer or other alternative resolution of:
 - Guadelete Investments S.a.r.l. shares and shareholder loan (completed);
 - Dyra S.a.r.l. shares and shareholder loan (ongoing);
 - tax receivable from Spanish authorities (ongoing); and
 - Investrev Limited shares and shareholder loans (ongoing).

Where appropriate, work included negotiating and drafting the transfer or assignment documents, agreeing and finalising third party consent documents, finalising and sending all required notices, providing any required powers of attorney, and attending to all notary meetings.

Principal investments

As previously reported, all work in respect of the Principal investments has now been completed. Total realisations were £419.4m.

Inter-company claims

As previously reported, all intercompany debts have either been realised or transferred to LBHI or the LBHI-controlled creditors. Total realisations were £47.5m.

Future strategy

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

Loan portfolios

- Develop and implement final closure strategies and plans, where appropriate.

Real estate investments

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

Taxation issues

Tax clearance for LB UK RE was granted by HMRC on 5 October 2016. HMRC has acknowledged that the Company can be dissolved, and all tax computations have been agreed up to 30 June 2016. There are no further tax returns to be submitted. Amounts of £6.1m and £5.9m have been recovered in respect of corporation tax repayments and group relief, respectively. The main work undertaken by the Administrators in the Period has been in respect of:

- Continued work on the tax analysis of assets being transferred under the RATA to ensure that transactions are carried out tax efficiently;
- Ongoing review of tax controls and submission of the 2017 certificate and notification to ensure compliance with the Senior Accounting Officer legislation as required by Paragraph 2 Schedule 46 of Finance Act 2009; and
- Compliance with the Administrators' obligations regarding the publication of the Lehman group Tax Strategy, adhering to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards, and consideration of their obligations under the current Corporate Criminal Offence legislation.

To date, Value Added Tax ("VAT") totalling £7.3m has been repaid to LB UK RE.

As previously reported, LB UK RE was de-registered for VAT with effect from 1 September 2016. All VAT due to LB UK RE for the period during which it was a member of the Lehman UK VAT group has been recovered by the representative member and paid to LB UK RE.

A portion of the input VAT on costs incurred by LB UK RE after it ceased to be a member of the VAT group can be recovered post de-registration. Claims submitted by LB UK RE, once agreed, are paid directly by HMRC.

A third post de-registration claim was submitted to HMRC within the Period for VAT totalling £82k. The proceeds of this claim were received by LB UK RE after the date of this report. This related to input tax incurred from 21 October 2017 to 31 July 2018. A fourth de-registration claim for input VAT incurred after 31 July 2018 will be prepared and submitted after the Period.

Future reports

Assuming the Court grants the requested extension the Administrators will next report to creditors in approximately six months.



D Y Schwarzmann

Joint Administrator

LB UK RE Holdings Limited

DY Schwarzmann, EJ Macnamara, GE Bruce and R Downs 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, EJ Macnamara, GE Bruce and R Downs are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Joint Administrators.

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, EJ Macnamara, GE Bruce and R Downs 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 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 2018.
<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 the Administrators' remuneration for the period 1 November 2017 to 31 May 2018, totalling £246k plus VAT, was carried out by way of a written resolution of creditors as a whole pursuant to Section 15.16 of the Insolvency (England and Wales) Rules 2016 ("IR16"), dated 13 June 2018.

During the Period, the Administrators have drawn remuneration of £263k plus VAT, including remuneration of £53k plus VAT in respect of 75% of their time costs on account from 1 June 2018 to 31 August 2018.

Time cost analyses are 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 Statement of Insolvency Practice No.9 governing the disclosure of insolvency office holders' time costs and expenses.

The Administrators have drawn remuneration of £52m 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 2018 to 30 June 2018. Administrators' time costs incurred during the Period totalled £0.2m.

Grade	Hours	Costs (£)
Partner	2	1,975
Director	13	9,327
Senior manager	23	11,398
Manager	249	114,906
Senior associate	162	49,174
Associate	40	9,487
Total	489	196,267

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

Activity	Hours	Costs (£)
Working assets/realisations	64	28,916
Strategy, administration, planning and compliance	231	96,463
Tax and VAT	17	5,992
Creditors, intercompany and LB UK RE group companies	66	27,294
Accounting & treasury	111	37,602
Total	489	196,267

Creditors' rights

Creditors have the right to ask for more information within 21 days of receiving this report as set out in Rule 18.9 IR16. Any request must be in writing. Creditors can also challenge fees and expenses within eight weeks of receiving this report as set out in Rule 18.34 IR16. This information can also be found in the guide to fees at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2017/administration-creditor-fee-guide-6-april-2017.ashx?la=en>

A copy may be obtained by creditors free of charge by contacting Stephen Ingle at PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT.

Receipts and payments account

An account of the receipts and payments in the administration for the six months to 14 September 2018, and the cumulative total since commencement of the administration, is set out in Section 4 of this report.

Significant receipts in the Period include:

- £2.1m in respect of recoveries from the Argentinian SNPL portfolio.

Significant payments in the Period include:

- £2.1m in respect of payments to the LBHI-controlled creditors under the terms of the RATA; and
- £0.3m in respect of Administrators' remuneration.

Cash held as at 14 September 2018 totals £4.3m (GBP equivalent).

Section 4 Receipts and payments

	As at 14 September 2018			As at	Movements	As at	As at
	GBP (£)	US (\$)	EUR (€)	14 September 2018	from 15 March 2018 to	14 March 2018	14 March 2018
				TOTAL GBP equivalent	14 September 2018	RESTATED	(GBP equivalent)
					(GBP equivalent)	at 14 September 2018	exchange rate
	mil	mil	mil	mil	mil	mil	mil
RECEIPTS							
SNPL recoveries	1.7	62.6	351.2	362.7	2.1	360.6	356.3
Real estate recoveries	17.9	2.2	83.0	93.5	-	93.5	93.1
Principal investments	69.3	236.9	190.7	419.4	-	419.4	408.5
Other recoveries	0.9	-	-	0.9	-	0.9	0.9
Distributions received	43.4	5.4	-	47.5	-	47.5	47.3
Internal currency transfer	646.5	2.8	1.9	650.4	0.1	650.3	650.1
Corporation Tax repayments	12.0	-	-	12.0	-	12.0	12.0
VAT repayments	7.3	-	-	7.3	-	7.3	7.3
Interest	1.0	0.9	2.8	4.3	-	4.2	4.3
Receipts Grand Totals	800.0	310.7	629.6	1,598.0	2.2	1,595.8	1,579.8
PAYMENTS							
Building and occupancy costs	5.3	-	0.1	5.4	-	5.4	5.4
Payroll and employee costs	18.2	-	4.5	22.2	-	22.2	22.2
Legal fees	19.5	0.1	1.1	20.6	-	20.6	20.6
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	6.5	-	6.5	6.5
Office holders' remuneration	62.2	-	-	62.2	0.3	61.9	61.9
Office holders' disbursements	0.3	-	-	0.3	-	0.3	0.3
Other professional fees	5.1	-	2.2	7.1	0.1	7.0	7.0
Distribution to unsecured creditors	649.6	-	-	649.6	-	649.6	649.6
Legal Settlement	-	0.1	0.2	0.3	-	0.3	0.3
Real Estate valuation costs	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	4.0	3.6	-	3.6	3.5
Portuguese tax liability	-	-	1.7	1.5	-	1.5	1.5
Bonus payments in relation to Portuguese assets	-	-	5.7	5.1	-	5.1	5.1
Internal currency transfer	3.3	305.3	566.0	740.3	-	740.3	724.6
LBHI- pursuant to the RATA	18.1	4.8	35.8	53.8	2.1	51.7	51.4
Transfer to CVA	12.5	-	-	12.5	-	12.5	12.5
Payments Grand Totals	796.6	310.6	628.8	1,593.8	2.5	1,591.1	1,575.2
NET POSITION	3.4	0.1	0.8	4.3	(0.3)	4.7	4.6
CASH BALANCES							
HSBC/ Barclays	3.4	0.1	0.8	4.3	-	-	-
Citibank	-	-	-	-	-	-	-
Money markets	-	-	-	-	-	-	-
Total Cash	3.4	0.1	0.8	4.3			

Exchange rate as at 14 March 2018

US\$ 1 : GBP 0.7178
EURO €1 : GBP 0.8871

Exchange rate as at 14 September 2018

US\$ 1 : GBP 0.7648
EURO €1 : GBP 0.8914

Amounts include VAT where applicable

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