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

Joint Administrators' progress
report for the period 15 September
2016 to 14 March 2017

27 March 2017

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Section 1 Joint Administrators' progress report

Introduction

This is the seventeenth progress report by the Joint 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 March 2017 (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 Lehman Brothers Holdings Inc ("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 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 terms of office of the Administrators were extended to 30 November 2016. As previously reported, the Administrators sought to extend the administration beyond 30 November 2016 in order to finalise the position in respect of the remaining assets and deal with the legal and other operational matters required to bring about the closure of the administration and dissolution of the Company. Pursuant to an Order of the High Court dated 7 November 2016, the Court extended the terms of office of the Administrators by one year to 30 November 2017.

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 £358.4m.

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"). After the end of the Period, Firstcity was sold to a Portuguese real estate investment company.
- Liaised with the LBHI-controlled creditors to complete the transfer of a single loan asset.

German portfolio – the Administrators have:

- Issued a final notice to the holder of an indemnity provided to one of the parties to the securitisation structure regarding the Administrators' intention to bring the administration of LB UK RE to an end, which followed an initial notice seeking confirmation that it has no outstanding claims under the indemnity. Receipt of the notice was acknowledged by the holder of the indemnity.
- Continued to progress the closure of elements of

the securitisation structure for which LB UK RE has contractual or ownership responsibilities, including:

- As a result of not obtaining the requested binding ruling from the German tax authorities in relation to the tax position of the entity, consulting further with local and UK tax and legal experts to consider alternative strategies for the wind down and disposal of the wholly owned German SPV; and
- Liaising with the management services provider for the wholly owned German SPV entity regarding the cessation of the services contract.

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; and
- Continued to liaise 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 £92.3m to date and £0.7m 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 £17m in the Period, £262m in total to date to prepay senior lenders and release cash to assist in servicing the remaining assets in the portfolios. In the Period:
 - Worked with our lawyers and the local liquidator to finalise arrangements around an indemnity granted to Calliope Finance S.r.l. by LB UK RE;
 - Liaised with our Spanish lawyers to draft legal documents and powers of attorney to allow an assignment of the tax receivable to the LBHI-controlled creditors; and
 - Completed the sale of the properties indirectly owned by Tamar Office Properties SAS (formerly Kenmore Office Properties SAS).

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 €823k following the sale of the properties indirectly owned by Tamar Office Properties SAS.
- Liaised with the LBHI-controlled creditors in arranging for the efficient transfer of:
 - Cirene Deferred Purchase Price (ongoing);
 - Dyra S.a.r.l. shares and shareholder loan (ongoing);
 - Investrev Limited shares and shareholder loans (ongoing);
 - Kenmore French Office Properties S.a.r.l. shares and shareholder loans (completed); and
 - Kyra S.a.r.l. shares (completed).

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; and

- Refined the necessary processes and resources to manage, and ensure compliance of, the real estate investment portfolio on a day-to-day basis.

Principal investments

As previously reported, all work in respect of the Principal investments has now been completed. Total realisations were £430.2m.

Inter-company claims

As previously reported, all intercompany debts have either been realised or transferred to the LBHI-controlled creditors. Total realisations were £47.8m.

Future strategy

As set out above, LB UK RE's remaining assets are in the course of being disposed or 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.

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

As previously reported, on 2 September 2016 a tax clearance request was submitted with the final corporation tax return for the period ended 30 June 2016. Tax clearance was subsequently 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. 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:

- Continued work on the tax analysis of assets being transferred under the RATA to ensure that transactions are carried out tax efficiently;
- Further consideration of the tax aspects of the proposed transfer options for the transfer of trust certificates located in Argentina to the LBHI-controlled creditors;
- Review of the French tax returns in respect of the sale of the Kenmore properties including liaising with PwC France; 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.

To date, Value Added Tax ("VAT") totalling £7.0m has been repaid to LB UK RE. This includes VAT repayments within the Period totalling £0.2m.

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 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. A claim can be submitted by LB UK RE and, once agreed, the repayment is made directly to it from HMRC.

The first post-deregistration claim, totalling £175k, was submitted to HMRC after the end of the Period.

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>	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 2017.
<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 January 2016 to 31 December 2016, totalling £2.4m plus VAT, was carried out by way of written resolutions of creditors as a whole under Section 2.48 of the Insolvency Rules 1986, dated 23 November 2016 and 6 January 2017.

During the Period, the Administrators have drawn remuneration of £1.0m plus VAT, including remuneration of £61k plus VAT in respect of 75% of their time costs on account from 1 January 2017 to 31 January 2017.

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 £51.1m 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 July 2016 to 31 December 2016.

Grade	Hours	Costs (£)
Partner	20	20,406
Director	111	81,229
Senior manager	467	309,523
Manager	491	219,581
Senior associate	277	74,416
Associate	68	13,883
Total	1,434	719,038

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

Activity	Hours	Costs (£)
Working assets/realisations	752	396,335
Strategy, administration, planning and compliance	288	152,895
Tax and VAT	147	84,891
Creditors, intercompany and LB UK RE group companies	60	28,746
Accounting & treasury	187	56,171
Total	1,434	719,038

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 2017, and the cumulative total since commencement of the administration, is set out in Section 4 of this report.

Significant receipts in the Period include:

- £0.7m in respect of real estate investments; and
- £0.2m in respect of VAT refunds.

Significant payments in the Period include:

- £6.3m in respect of payments to the LBHI-controlled creditors under the terms of RATA; and
- £1.2m in respect of Administrators' remuneration.

Cash held as at 14 March 2017 totals £7.7m (GBP equivalent).

Section 4 Receipts and payments

	As at 14 March 2017			As at 14 March 2017 TOTAL GBP equivalent	Movements from 15 September 2016 to 14 March 2017 (GBP equivalent)	As at 14 September 2016 (GBP equivalent) RESTATED at 14 March 2017 exchange rate	As at 14 September 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	358.4	-	358.4	344.4
Real estate recoveries	17.9	2.2	83.0	92.3	0.7	91.6	89.1
Principal investments	69.3	236.9	190.7	430.2	-	430.2	409.1
Other recoveries	0.9	-	-	0.9	0.1	0.8	0.8
Distributions received	43.4	5.4	-	47.8	-	47.8	47.5
Internal currency transfer	646.5	2.7	1.8	650.3	-	650.3	650.0
Corporation Tax repayments	12.0	-	-	12.0	-	12.0	12.0
VAT repayments	7.0	-	-	7.0	0.2	6.8	6.8
Interest	1.0	0.9	2.8	4.3	-	4.3	4.1
Receipts Grand Totals	800.0	308.0	629.5	1,603.2	1.0	1,602.2	1,563.8
PAYMENTS							
Building and occupancy costs	5.3	-	0.1	5.4	-	5.4	5.4
Payroll and employee costs	18.0	-	4.5	21.9	-	21.9	21.8
Legal fees	19.2	-	1.1	20.1	0.9	19.2	19.2
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	6.4	-	6.4	6.2
Office holders' remuneration	61.3	-	-	61.3	1.2	60.1	60.1
Office holders' disbursements	0.3	-	-	0.3	-	0.3	0.3
Other professional fees	4.8	-	2.2	6.7	-	6.7	6.7
Distribution to unsecured creditors	649.6	-	-	649.6	-	649.6	649.6
Legal Settlement	-	0.1	0.2	0.3	-	0.3	0.2
Real Estate valuation costs	0.2	-	-	0.2	-	0.2	0.2
Firstcity credit facility	-	-	4.0	3.5	-	3.5	3.4
Portuguese tax liability	-	-	1.7	1.5	-	1.5	1.4
Bonus payments in relation to Portuguese assets	-	-	5.7	5.0	-	5.0	4.8
Internal currency transfer	3.3	305.3	566.0	748.6	-	748.6	712.2
LBHL- pursuant to the RATA	16.5	2.3	35.6	49.5	6.3	43.2	42.1
Transfer to CVA	12.5	-	-	12.5	-	12.5	12.5
Payments Grand Totals	793.2	308.0	628.6	1,595.5	8.4	1,587.1	1,548.7
NET POSITION	6.8	-	0.9	7.7	(7.4)	15.1	15.1
CASH BALANCES							
HSBC/ Barclays	4.8	-	0.9	5.7	-	-	-
Citibank	2.0	-	-	2.0	-	-	-
Money markets	-	-	-	-	-	-	-
Total Cash	6.8	-	0.9	7.7			

Exchange rate as at 14 September 2016

US\$ 1 : GBP 0.7534
EURO €1 : GBP 0.8462

Exchange rate as at 14 March 2017

US\$ 1 : GBP 0.8194
EURO €1 : GBP 0.8750

Amounts include VAT where applicable

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