

BLANK ROME LLP

The Chrysler Building
405 Lexington Avenue
New York, NY 10174
(212) 885-5000
Ira L. Herman
Philip M. Guffy

*Attorneys for Yuri Vladimirovich Rozhkov
in his Capacity as Trustee and Foreign
Representative for the Debtor*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----X

In re:

LARISA MARKUS,

Chapter 15

Case No. 19-10096 ()

Debtor in a Foreign Proceeding.

-----X

**DECLARATION OF SERGEY S. SOKOLOV
IN SUPPORT OF VERIFIED PETITION AND RECOGNITION HEARING**

I, Sergey S. Sokolov, pursuant to 28 U.S.C. § 1746, hereby declare under penalty of perjury as follows:

1. I am a Managing Director of the Russian Practice of M&S Law, LLC d/b/a Marks & Sokolov, LLC (“M&S”), a law firm with offices in Moscow, Russia and Philadelphia, Pennsylvania. I graduated from the Law School of St. Petersburg State University, summa cum laude, in 1993. I also received a bachelor’s degree from the School of Economics at St. Petersburg State University. I have 25 years of experience in legal practice. I prepared expert opinions on Russian law in *Belikov v. Huhs* heard in the Superior Court of the State of Washington, *Sullivan and Cromwell LLP v. James C. Justice II, et al.*, AAA case 01-15-0002-9299, *In Re the Application of Natalia Potanina for an Order to Take Discovery Pursuant to 28 USC 1782(a)*, 14-MC-31

(LAP) 14-MC-57 (LAP) in the United States District Court for the Southern District of New York. Additionally, I provided a declaration concerning Russian law in connection with the chapter 15 petition for recognition of the Russian insolvency proceeding of the Foreign Economic Industrial Bank Limited, “Vneshprombank” Ltd., *see In re Foreign Economic Industrial Bank Limited, “Vneshprombank” Ltd.*, Case No. 16-13534-mkv (Bankr. S.D.N.Y.); a declaration concerning Russian law in connection with the chapter 15 petition for recognition of the Russian insolvency proceeding of Ms. Natalia Pirogova, *see In re Natalia Pirogova*, Case No 18-10870 (SCC) (Bankr. S.D.N.Y.); and an expert declaration in connection with a foreign representative’s motion to recognize a Russian court decision in the chapter 15 proceeding of Sergey Petrovich Poymanov pending in the United States Bankruptcy Court for the Southern District of New York, *see In re Sergey Petrovich Poymanov*, Case No. 17-10516-mkv, Dkt. No. 88 (Bankr. S.D.N.Y.). I have also prepared expert opinions on Russian law in confidential arbitrations. I maintain a practice in litigation, M&A, commercial real estate, international trade, and bankruptcy, including under Federal Law N^o 127-FZ “On Insolvency (Bankruptcy)” (the “Russian Bankruptcy Law”). An English translation of the Russian Bankruptcy Law, as published by the Russian State Corporation “Deposit Insurance Agency” on their website https://www.asv.org.ru/en/legislation/127-FZ_1.rtf, is attached here as Exhibit A.

2. Although my native language is Russian, I am fluent in English, and have elected to execute and submit this declaration in English.

3. I submit this declaration in support of the *Verified Petition Under Chapter 15 for Recognition of Foreign Main Proceeding* filed contemporaneously herewith.

4. This declaration is comprised of matters that are statements of legal opinion and others that are statements of fact. Where a statement is a legal opinion, such statement represents

my understanding of the applicable Russian law as a practicing lawyer. To the extent a statement is a statement of fact, such statement is based upon my personal knowledge and information supplied to me by or on behalf of Mr. Yuri Rozhkov (the “Foreign Representative”), the financial administrator and foreign representative of Ms. Larisa Markus. Each such statement is true to the best of my knowledge, information, and belief. M&S has been engaged by the Foreign Representative to serve as his Russian legal counsel in connection with this chapter 15 proceeding.

**I. OVERVIEW OF RUSSIAN BANKRUPTCY LAW APPLICABLE TO
BANKRUPTCY OF INDIVIDUALS**

5. Since October 1, 2015, Russian law allows certain forms of bankruptcy procedures in respect of non-entrepreneur individuals (*i.e.* individuals who are not registered for carrying out business activities). The Russian Bankruptcy Law is the principal statute governing insolvency for individuals in Russia, and specifically Chapter X with respect to individuals. Russian Bankruptcy Law Article 213.1. Pursuant to the Russian Bankruptcy Law, the state commercial “arbitrazh courts” (also known as arbitration courts), including the Moscow Arbitrazh Court, have exclusive jurisdiction over insolvency cases, including the bankruptcy of an individual. Russian Bankruptcy Law Articles 32 and 33.

A. The Commencement of an Insolvency Proceeding

6. In Russia, bankruptcy procedures in respect of an individual may be commenced by application of the individual or involuntarily by a creditor.

7. A creditor may commence an involuntary bankruptcy proceeding against an individual if that individual’s debt exceeds RUB 500,000 (approximately \$7,500)¹ and is overdue for more than three months. Russian Bankruptcy Law Article 213.3(2). As a general rule, the debt

¹ All conversions of rubles to dollars referenced herein are calculated based on the Central Bank of Russia’s official exchange rate as December 18, 2018.

shall be confirmed by a judgment or an arbitral award whose enforcement was granted by a Russian court. Russian Bankruptcy Law Article 213.5. There are certain exceptions to the general rule requiring a creditor to obtain a court judgement before commencing an involuntary bankruptcy proceeding, including when a bank's claim is based on a credit agreement or when a claim is based on a notarized transaction. Russian Bankruptcy Law Article 213.5, § 2.

B. Overview of the Administration of an Insolvency Proceeding

8. If the court finds that the bankruptcy petition has merit, the presiding court enters and appropriate form of order, and the following insolvency procedures may be applicable:

- a Debt restructuring;
- b Sale of assets; or
- c Settlement agreement.

Russian Bankruptcy Law Article 213.2. A copy of the order entered accepting the petition is published in the Unified Federal Register of Bankruptcy Data and the "Kommersant" newspaper.

9. Once a petition is accepted, the court appoints a financial administrator (similar to a trustee under the United States Bankruptcy Code). To ensure that the rights of all creditors are protected, the financial administrator, among other things, will timely verify creditors' claims filed against a debtor and manage the bankruptcy estate. Toward that end, a bar date for the filing of claims is established and meeting of creditors is held to discuss the financial condition of the debtor.

10. The Russian Bankruptcy Law provides a process designed to: maximize the value of an insolvent individual's assets; equitably distribute such assets to creditors; and, when the insolvent individual acts in good faith and does not violate Russian Bankruptcy Law, to discharge the individual from the debts that remained unsettled upon realization of an insolvent individual's property.

11. Furthermore, the financial administrator is authorized to take measures necessary to search, find, and recover a debtor's assets possessed by third parties and pursues actions against persons and entities that contributed to the individual's insolvency.

C. The Financial Administrator's Role in Insolvency Proceeding

12. In practice, individual bankruptcy proceedings normally start with an attempt to restructure debts. If a restructuring is not possible, the court will declare the debtor bankrupt, and the financial administrator will proceed to liquidate the debtor's assets. Russian Bankruptcy Law Articles 213.2, 213.6, 213.17, and 213.24.

13. During the course of a debt restructuring, the law imposes a moratorium on the payment of debts, and no interest or penalties accrue on any claims (except for post-commencement claims), while the financial administrator analyzes the debtor's financial situation. The goal of the debt restructuring is for the debtor and his or her creditors to work out a plan providing for the repayment of debts during a period that cannot exceed three years. Russian Bankruptcy Law Article 213.14(2). Creditors have the right to vote to approve or disapprove a plan. Approval requires the approval of a majority of the votes of all creditors who filed claims with the court. Russian Bankruptcy Law Article 213.16. A court will approve a plan if it finds, among other things, that the plan is feasible and does not breach the rights of third parties. Russian Bankruptcy Law Article 213.18.

14. If the plan of restructuring is not approved, or if such plan is approved but is later annulled by the court, or under certain other grounds provided for by the law, the court will declare a debtor bankrupt and commence procedures for the financial administrator to liquidate the debtor's assets. Russian Bankruptcy Law Articles 213.22 and 24. Although not explicitly provided by the Russian Bankruptcy Law, in practice, it is also possible for the court to initiate this liquidation procedure without first attempting a restructuring of debts.

15. Once the debtor is declared bankrupt, the financial administrator exercises all rights with respect to the property making up the bankruptcy estate and is entitled to collect and dispose of such property for the benefit of creditors. Russian Bankruptcy Law Articles 213.25(5) and 213.26.

16. The bankruptcy estate includes all assets of the individual debtor. Any money due to the debtor and collected by the financial administrator during the course of the bankruptcy is part of the bankruptcy estate and is administered by the financial administrator. There are certain exemptions including: (a) certain limited personal property, (b) property not authorized to be sold in commerce (e.g. certain drugs, weapons), and (c) certain other types of property or income that cannot be subject to enforcement, such as homes/apartments (unless for claims by mortgagors) and land plots underneath such home, if the debtor does not have any other premises as the debtor's dwelling. Russian Bankruptcy Law Articles 131 and 213.25(3); Civil Procedure Code of the Russian Federation dated November 14, 2002, No. 138-FZ, Article 446.

17. During a debtor's insolvency proceeding, any transaction made by the debtor without the financial administrator's approval with respect to an estate asset is deemed null and void. Russian Bankruptcy Law Article 213.25(5). The financial administrator, as part of his right to administer the bankruptcy estate for the benefit of creditors, has the right to challenge improper transfers by a debtor. Russian Bankruptcy Law Articles 213.9(7), 213.25(5) and 213.25(6).

18. Additionally, the financial administrator is authorized to prosecute claims on behalf of the debtor with respect to the debtor's assets. Russian Bankruptcy Law Articles 213.25(5) and (6). Specifically, the financial administrator is authorized to, among other things, (a) commence and conduct court proceedings with respect to any of the debtor's pecuniary rights (including for recovery of any assets and debts due to the debtor), (b) exercises all of the debtor's

corporate rights, and (c) disposes of any of the debtor's funds placed in bank accounts or deposits for the benefit of the debtor's creditors. Russian Bankruptcy Law Article 213.25(6). Accordingly, the financial administrator is the only person authorized to represent the above-named debtor and her bankruptcy estate in any foreign insolvency proceedings including proceedings under Chapter 15 of title 11 of the United States Code.²

19. In Russia, creditors may apply to have their claims included in the register of creditors' claims (and to participate in the first creditors' meeting) within two months after the date when notice of an individual's bankruptcy is published. If the two-months deadline is missed for good cause, it may be reinstated by the court. *See* Russian Bankruptcy Law Article 213.8 § 2. The court shall also consider whether a late creditor's claim is justified and deserves to be included in the register of claims or if it should be excluded. Russian Bankruptcy Law Articles 71 and 213.8§ 2.

20. The financial administrator holds the first meeting of creditors within 60 days after the expiration of the two-month term set for creditors to apply for inclusion of their claims into the register. Russian Bankruptcy Law Article 213.12§ 5. At the meeting of creditors, the financial administrator provides a report to the creditors on the fulfillment of his duties and provides suggestions for whether to apply to the court for approval of a plan of restructuring or to apply for a liquidation of the debtor's assets. Russian Bankruptcy Law Article 213.8 § 2. If the court approves the plan of restructuring, the financial administrator, not later than one month before the end of the term of the plan, provides to the court and to the creditors a report on the results of

² In furtherance of ancillary foreign proceedings, the Russian Bankruptcy Law provides that "[t]he decisions of foreign states' courts on insolvency (bankruptcy) cases shall be recognized in the territory of the Russian Federation in compliance with the international treaties of the Russian Federation. In case of a lack of international treaties of the Russian Federation, the decisions of foreign states' courts on insolvency (bankruptcy) cases shall be recognized in the territory of the Russian Federation on the basis of reciprocity." Russian Bankruptcy Law Article 1.

fulfillment of the plan. Based on the results of this report, the court shall either close the proceedings (if the plan has been fulfilled according to its terms) or cancel the plan, declare the debtor bankrupt, and initiate a liquidation of the debtor's assets. Russian Bankruptcy Law Article 213.22.

21. When the court initiates a liquidation of the debtor's assets, creditors are again entitled to apply for inclusion of their claims into the register of creditors within two months after publication of the liquidation notice. *See* Interpretation given by Plenum of the Supreme Court in the Decree dated October 13, 2015, No. 45, Section 24. All the known assets of the debtor as of the date of the court's declaration of the debtor's bankruptcy and the initiation of the liquidation constitute the bankruptcy estate, which is then liquidated at auction. Russian Bankruptcy Law Articles 110, 111, and 213.26.

22. After the financial administrator liquidates the debtor's assets and distributes the proceeds to creditors, the financial administrator submits a report to the court summarizing results of the bankruptcy proceeding. Russian Bankruptcy Law Article 213.31. After the court has considered the report, the court decides whether to discharge the debtor from claims that were not satisfied by the sale of the debtor's assets and then closes the bankruptcy case. Russian Bankruptcy Law Article 213.28. The court will not discharge the debtor from his or her obligations if the debtor acted unlawfully or in bad faith during the bankruptcy proceedings. A bankruptcy case may also be closed as a result of a settlement agreement between a debtor and his or her creditors approved by the court. Russian Bankruptcy Law Articles 150 and 213.31.

D. Financing of an Individual's Bankruptcy Proceedings

23. Generally, the cost of conducting bankruptcy proceedings is paid by the debtor. Russian Bankruptcy Law Article 20.7 § 1. The Russian Bankruptcy Law allows creditors to bear

such costs, including the compensation of the financial administrator and his professionals, under certain conditions. Russian Bankruptcy Law Article 213.5 §§ 4 and 5.

24. Typically, a financial administrator in a personal bankruptcy proceeding will be permitted to retain a third-party professional to assist with his fiduciary duties, by applying to the court and showing reasonable grounds to engage such professional and that such professional's compensation is reasonable. Additionally, the debtor must consent to such retention. However, if one or more creditors agree to pay the fees of the financial administrator's professionals, neither an order of the court nor consent of the debtor is required. Russian Bankruptcy Law Article 213.9 § 6 ¶ 5.

II. GENERAL BACKGROUND CONCERNING THE DEBTOR

25. Larisa Markus is a Russian citizen, born in Moscow, Russia. From July 23, 1999, to her arrest on December 19, 2015, Ms. Markus resided in Moscow at Zoologicheskaya street 26, building 1, flat 24. *See Exhibit B.* Currently, Ms. Markus is incarcerated in Moscow, Russia serving a prison sentence of eight years and six months after being convicted of embezzling money from Vneshprombank – a bank that she owned and managed. *See Letter from Investigator of Special Cases of the Second Division of the Organized Crime Investigation Department, attached here as Exhibit C.*

26. Despite her incarceration, Ms. Markus still maintains a legal and economic interest in several real estate parcels in Moscow, particularly the apartment located at Moscow, Zoologicheskaya street 26, building 1, flat 24 of 88.4 sq.m, cadastral number 77:00:0000000:65895. *See Exhibit B.*

III. EVENTS LEADING UP TO, AND THE CURRENT STATUS OF, THE RUSSIAN BANKRUPTCY PROCEEDING

27. Ms. Markus was the founder and a shareholder of Vneshprombank, previously one of the largest Russian banks. She served as president of Vneshprombank from September 29, 1995 to July 19, 2016. As more fully set forth below, a Russian court determined that starting not later than May 2009, Ms. Markus, together with her accomplices, perpetrated a large-scale fraud by embezzling funds from Vneshprombank. Currently, Vneshprombank is the subject of its own bankruptcy proceeding under the Russian Bankruptcy Law. By order dated February 15, 2017 this Court granted the petition of the Vneshprombank's trustee to recognize Vneshprombank's Russian bankruptcy proceeding as a foreign main proceeding. *See* Case No. 16-13534-mkv, Dkt. No. 24.

B. The Criminal Proceedings against Ms. Markus

28. In December 2015, Ms. Markus was arrested on charges of committing large-scale fraud as president of Vneshprombank. Under Russian law, large-scale fraud is the stealing of another person's property or the acquisition of the right to another person's property in an amount exceeding RUB 1,000,000 (approximately \$14,400) by fraud or breach of trust.

29. On May 12, 2017, after trial, Ms. Markus was convicted. *See* Criminal Conviction, attached here as Exhibit D. Thereafter, Ms. Markus appealed the conviction. On August 15, 2017, the Judicial Division for Criminal Cases of the Moscow City Court partly amended the lower court ruling and ultimately sentenced Ms. Markus to eight years and six months of imprisonment. *See* Appeal Decision, attached here as Exhibit E.

C. Commencement and Current Status of Russian Insolvency Proceeding in respect of Ms. Markus

30. On April 19, 2016, Bank VTB 24, a creditor of Ms. Markus, filed an application for the commencement of a personal bankruptcy proceeding against Ms. Markus under the Russian Bankruptcy Law. The application for commencement was granted on April 22, 2016, by the

Moscow Arbitrazh Court. On October 18, 2016, the Moscow Arbitrazh Court entered an order granting the application of Bank VTB 24, initiating a debt restructuring procedure for Ms. Markus and appointing the Foreign Representative as Ms. Markus' financial administrator (the "Commencement Order"). A copy of the Commencement Order is attached here as Exhibit F. The Commencement Order appointed the Foreign Representative as the financial administrator for the estate of Ms. Markus.

31. On May 25, 2017, the Moscow Arbitrazh Court determined that there was no evidence that Ms. Markus was eligible for restructuring of debts and that there was evidence that Ms. Markus is bankrupt and initiated a procedure to liquidate her property. By the same judgment the Moscow Arbitrazh Court appointed the Foreign Representative as Ms. Markus' financial administrator to preside over the liquidation (the "Liquidation Order"). A copy of the Liquidation Order is attached here as Exhibit G.

32. The Moscow Arbitrazh Court issued a notice to creditors establishing August 3, 2017, as the bar date for creditors to file claims against Ms. Markus. The notice of the claims bar date was published in the newspaper "Kommersant" and the Unified Federal Register of Bankruptcy Data.³

33. On November 16, 2016, the Deposit Insurance Agency, as bankruptcy trustee of Vneshprombank, submitted a claim against the Debtor for recovery of debts under certain credit agreements in the amount of RUB 1,010,846,992.4 (approximately \$15.2 million). The Moscow Arbitrazh Court approved the bank's claim and included it into the register of creditors' claims on March 28, 2017. *See* Moscow Arbitrazh Court's Ruling, attached here as Exhibit H.

³ The Unified Federal Register of Bankruptcy Data is the primary means for providing notices regarding bankruptcy cases in Russia. The Unified Federal Register of Bankruptcy Data can be found at: <http://www.bankrot.fedresurs.ru/>.

34. On July 26, 2017, the Deposit Insurance Agency, as bankruptcy trustee of Vneshprombank, submitted a claim against the Debtor for damages inflicted on Vneshprombank as a result of the crimes committed in her capacity as president of the bank in the amount of RUB 113,526,038,454.79 (approximately \$1.7 billion). The Moscow Arbitrazh Court rejected the claim by the ruling dated October 17, 2017. On December 29, 2017, the Ninth Appeal Court reversed the ruling of the lower court, approved Vneshprombank's application and included its claim in the amount of RUB 113,526,038,454.79 (\$1.7 billion) into the register of Ms. Markus' creditors. *See* Ninth Appeal Court Ruling, attached here as Exhibit I.

35. At this time, there are two creditors in the register of creditors of Ms. Markus: Vneshprombank having a claim of approximately \$1.715 billion, representing 99.73% of votes, and Bank VTB (PJSC) with a secured claim of approximately \$4.6 million, representing 0.27% of votes.

36. The term of the Russian Insolvency Proceeding has been extended to May 16, 2019 (and may be further extended).

37. On December 18, 2018, the Deposit Insurance Agency, as bankruptcy trustee of Vneshprombank, submitted a claim in Vneshprombank's bankruptcy proceedings against Ms. Markus and other former officers of Vneshprombank seeking damages of RUB 218,989,872,000 (approximately \$3,155,000,000) based on their actions as persons controlling Vneshprombank. On December 24, 2018, the Moscow Arbitrazh Court accepted this claim for consideration and scheduled a hearing for April 10, 2019.

IV. DEBTOR'S PROPERTY IN THE UNITED STATES

38. Upon information and belief, between 2004 and 2015, Ms. Markus formed at least ten companies in New York: LM Property Management, LLC, LM Realty 24C, LLC, LM Realty 27D, LLC, LM Realty 31B, LLC, LM Realty 20A, LLC, LM Realty 23H, LLC, LM Realty 18

WEST, LLC, LM Realty 10C, LLC, First Integrated Construction, Inc. (“FIC”) and Innovative Construction Group, Inc (“ICG”) (collectively, the “LM Companies”)⁴.

39. Between 2008 and 2015, Ms. Markus used over **\$10 million** to purchase eight (8) apartments in Manhattan either in her own name or in the name of the LM Companies, as follows:

No.	Apartment	Initial Purchase/ Subsequent Transfer Date	Purchaser/Transferee	Amount
1	Apartment 31B , 10 West End Avenue, New York, NY	June 26, 2008	Ms. Markus	\$2,342,178
		August 31, 2010	LM Realty 31B, LLC	No known consideration
2	Apartment 31C , 10 West End Avenue, New York, NY	October 30, 2008	Ms. Markus	\$ 3,029,293
		August 31, 2010	LM Property Management, LLC	No known consideration
3	Apartment 27D , 10 West End Avenue, New York, NY	May 27, 2009	Ms. Markus	\$1,350,000
		August 31, 2010	LM Realty 27D, LLC	No known consideration
		October 14, 2015 (SOLD)	Sumauma Properties, LLC	\$2,200,000
4	Apartment 24C , 40 Broad Street, New York, NY	April 21, 2011	LM Realty 24C, LLC	\$474,102
5	Apartment 20A , 40 Broad Street, New York, NY	April 21, 2011 January 9, 2019 (sheriff sale held)	LM Realty 20A, LLC	\$781,253
6	Apartment 23H , 40 Broad Street, New York, NY	April 21, 2011	LM Realty 23H, LLC	\$1,134,187
7	Apartment 26A , 18 West 48th Street, New York, NY	November 29, 2012	LM Realty 18 WEST, LLC	\$2,165,000
		May 31, 2016 (SOLD)	Reuben Mordechay	\$2,575,000
<u>8</u>		<u>December 4, 2015</u>	LM Realty 10C, LLC	\$5,095,250

⁴ The information on formation and ownership of LM Companies appears in the *MOTION OF LM REALTY 31B, LLC; LM REALTY 27D, LLC; LM REALTY 24C, LLC; LM REALTY 23H, LLC; LM REALTY 20A, LLC; LM REALTY 18 WEST, LLC; LM REALTY 10C, LLC; LM PROPERTY MANAGEMENT LLC; THE LARISA MARKUS REVOCABLE TRUST; PROTAX SERVICES INC.; PROTAX SERVICES CONSULTING, INC.; ILYA BYKOV; FIRST INTEGRATED CONSTRUCTION, INC.; AND INNOVATIVE CONSTRUCTION GROUP, INC. FOR ENTRY OF AN ORDER PURSUANT TO RULE 9016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE QUASHING THE SUBPOENAS ISSUED BY THE FOREIGN REPRESENTATIVE* in case No. 16-13534 (MKV). The motion was later amended, and the relevant paragraph was deleted. The original motion is attached here as Exhibit L.

No.	Apartment	Initial Purchase/ Subsequent Transfer Date	Purchaser/Transferee	Amount
	<u>Apartment 10C, 50 Riverside Boulevard, New York, NY</u>			

40. Two apartments (**27D** at 10 West End Avenue and **26A** at 18 West 48th Street) were sold in 2015 and 2016, respectively.

41. All the apartments initially purchased in Ms. Markus’s name have been transferred to the LM Companies.

42. Upon information and belief, Ms. Markus retains an interest in the eponymously named LM Companies.⁵

43. Upon information and belief, Ms. Markus is the sole shareholder of FIC.⁶ In addition to the aforesaid real estate interests, Blank Rome LLP, as counsel to the Foreign Representative, holds an unapplied retainer, transferred to Blank Rome LLP for the benefit of Ms. Markus’ estate, in a bank account in New York City. Any unused portion of the retainer belongs to, and will be turned over to, the estate. The unapplied retainer constitutes property of Ms. Markus’ estate.

V. NEW YORK ACTIONS AFFECTING THE DEBTOR OR PROPERTY IN WHICH THE DEBTOR MAY HAVE AN INTEREST

A. 40 Broad Street Portfolio Foreclosure Actions

44. On November 2, 2017, 40 Broad Street Portfolio, LLC (“40 Broad Street Portfolio”) commenced three foreclosure actions in the Supreme Court of the State of New York against three apartments owned by the LM Companies: LM Realty 20A, LLC, LM Realty 23H, LLC and LM

⁵ See note 4 *supra*.

⁶ See note 4 *supra*.

Realty 24C, LLC. *See 40 Broad Street Portfolio, LLC v. LM Realty 20A, LLC et al.*, Case No 850252/2017; *40 Broad Street Portfolio, LLC v. LM Realty 23H, LLC et al.*, Case No 850253/201; *40 Broad Street Portfolio, LLC v. LM Realty 24C, LLC et al.*, Case No 850254/2017.

45. In its complaint, among other things, 40 Broad Street Portfolio alleges that it provided loans to the LM Companies of \$500,000 for each apartment subject to the foreclosure action, secured by a separate mortgage on each such apartment – (units 20A, 23H and 24C in 40 Broad Street, New York, NY 10004). The said LM Companies allegedly failed to timely repay the mortgages.

46. On October 26, 2018, the Court entered a Judgment of Foreclosure adjudging and ordering the sale of Unit 20A at public auction, with the proceeds of such sale to be used to repay the debt owed. The auction was scheduled for January 9, 2019, in New York City. *See* Notice, attached here as Exhibit J.

47. The actions against LM Realty 23H, LLC and LM Realty 24C, LLC are pending in the Supreme Court of the State of New York.

48. Upon information and belief, LM Realty 20A, LM Realty 23H, and LM Realty 24C intentionally defaulted on 40 Broach Street Portfolio's mortgages to divert rental income to persons associated with Ms. Markus.

49. Upon information and belief, 40 Broad Street Portfolio is associated with Ms. Markus and the foreclosures are a collusive attempt to sell the properties in question and divert the proceeds of such sales to persons associated with Ms. Markus. Moreover, unlike the HSBC Action described below, no attorney entered an appearance to defend the LM Companies.

B. 10WEA Foreclosure Action

50. On June 4, 2018, 10WEA Realty, LLC ("10WEA Realty") commenced a foreclosure action in the Supreme Court of the State of New York against LM Realty 10C, LLC –

owner of Unit 10C in 50 Riverside Boulevard, New York, NY 10069. *See 10WEA Realty, LLC v. LM Realty 10C, LLC et al.*, Case No 850159/2018.

51. 10WEA Realty allegedly provided loans to LM Realty 10C, LLC of \$3,000,000 secured by a mortgage on Unit 10C. LM Realty 10C, LLC allegedly failed to timely repay the loans.

52. Upon information and belief, LM Realty 10C, LLC intentionally defaulted on the 10WEA Realty mortgage to divert rental income to persons associated with Ms. Markus.

53. Upon information and belief, 10WEA Realty is associated with Ms. Markus and the 10 WEA Action is a collusive attempt to sell the property and divert the proceeds to persons associated with Ms. Markus. Moreover, unlike the HSBC Action described below, no attorney entered an appearance to defend the LM Companies.

C. HSBC Foreclosure Action

54. On November 19, 2018 HSBC Bank USA, N.A. (“HSBC”) commenced an action in the Supreme Court of the State of New York against LM Realty 31B, LLC – owner of Unit 31B in 10 West End Avenue, New York, NY 10023. *See HSBC Bank USA, N.A. v. LM Realty 31B, LLC et al.*, Case No 850323/2018 (the “HSBC Action”).

55. HSBC provided loans to Ms. Markus and then to LM Realty 31B, LLC in the aggregate amount of \$884,000, secured by a mortgage on the apartment (the “HSBC Mortgage”). The borrowers allegedly failed to make payments since August 2017.

56. Upon information and belief, LM Realty 31B, LLC intentionally defaulted on the HSBC Mortgage to divert rental income to persons associated with Ms. Markus.

57. Daniel Singer, who represents the LM Companies in the Vneshprombank Chapter 15 proceeding, represents LM Realty 31B, LLC in the HSBC Action.

D. BG Atlantic, Inc. Action

58. On November 9, 2016, BG Atlantic, Inc. commenced an action against Ms. Markus in the Supreme Court of the State of New York County of New York for recovery of damages for a breach of contract. *See BG ATLANTIC, INC. v. Larisa Markus, Case No 655892/2016* (“BG Action”). As alleged in the Complaint, “[i]n consideration for the oral agreements between [Ms. Markus] and her debtors which were assigned to plaintiff, [Ms. Markus] agreed to pay the full outstanding debt” and failed to timely pay such amounts.

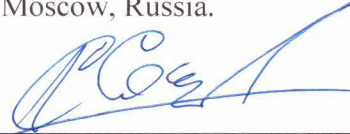
59. The parties in the BG Action reached a settlement, but Ms. Markus allegedly defaulted. On January 9, 2017, the court entered a \$4.7 million judgment against Ms. Markus in favor of BG Atlantic, Inc. *See* Judgment, attached here as Exhibit K.

60. Upon information and belief, the BG Action is collusive and designed to create the appearance that an unrelated third party has a judgment against Ms. Markus, while at all times relevant, BG Atlantic, Inc. has secretly been associated with Ms. Markus. The complaint in the BG Action fails to allege any reasonable basis explaining why Ms. Markus would have assumed liability for another person, or the nature of such liability.

[Remainder of this page intentionally left blank]

I declare under penalty of perjury under the laws of the United States of America that the foregoing is, to the best of my knowledge, information and belief, true and correct.

Executed this 10 day of January, 2019 in Moscow, Russia.



Sergey S. Sokolov