
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress
report for the period 30 April to 29
October 2015

27 November 2015

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 14th progress report prepared by the Joint Administrators (the “**Administrators**”) of Lehman Commercial Mortgage Conduit Limited (“**LCMC**” or the “**Company**”).

This report provides an update on the work that the Administrators have undertaken and the progress made since their appointment, with particular focus on the six month period to 29 October 2015 (the “**reporting period**”).

Objectives of the Administration

The Administrators initially operated a holding strategy for the loan portfolio and are pursuing the objective of achieving a better result for the creditors of LCMC as a whole than would be likely if LCMC were wound up (without first being in Administration).

The specific aims of this Administration were to:

- Protect and control the Company's assets, namely its portfolio of commercial mortgages;
- Identify future cash flows and secure payments for the benefit of the Company; and
- Maximise value for the Company at the time of sale or transfer of the assets.

Outcome for creditors

On 24 June 2013, the Court gave the Administrators of LCMC permission to agree and pay a dividend in respect of the claims of its unsecured creditors.

On 2 September 2015, a fourth interim dividend of 0.415p in the £ was declared and paid to the Company's unsecured non-preferential creditors whose claims had been admitted for dividend purposes.

To date, £191m has been distributed to the Company's creditors, equating to 79.095p in the pound.


Extension to the Administration

On 5 November 2015, the High Court granted an Order to extend the Administration by a further 24 months to 30 November 2017, following an application made by the Administrators.

Future reports

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

Signed:



DA Howell
Joint Administrator
Lehman Commercial Mortgage Conduit Limited

DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Commercial Mortgage Conduit Limited to manage its affairs, business and property as agents without personal liability. DA Howell, AV Lomas, SA Pearson, GE Bruce 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 bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

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.

Section 2 Joint Administrators' actions to date

Overview

At the date of Administrators' appointment, LCMC was a subsidiary of LB SF No.1 ("LBSF1"). Its assets comprised the remainder of a portfolio of loans purchased prior to the Administration from Northern Rock with funding from LBSF1, intercompany claims, and an interest in a securitisation known as "Diversity", a Special Purpose Vehicle ("SPV").

With the exception of 20 loans, the portfolio purchased from Northern Rock was securitised into Diversity.

Administrators' actions to date

Diversity

The Administrators have recovered £26m in respect of LCMC's contractual interest in the loans securitised in Diversity. No further realisations are expected in relation to this asset.

Loan portfolio

Of the 20 loans which were not securitised, LCMC had no title to three of them. Since appointment, six loans have been repaid in full and seven have either been enforced or settled with their borrowers.

Of the remaining loans, one is subject to enforcement proceedings which will be completed if the buyer of the underlying security makes a deferred consideration payment in January 2016. The remaining 3 loans comprise both performing and non performing elements and the Administrators are actively considering the available options in order to maximise recoveries for creditors.

The Administrators continue to retain a Lehman Brothers employee to work on the outstanding portfolio of loans. Regular strategy meetings are held between the employee and the Administrators to ensure that realisations from the loan portfolio are being optimised and prompt action taken in respect of non-performing loans.

In the reporting period, collections on the portfolio of loans totalled £0.29m.

Bank interest received

In order to maximise realisations for creditors and to minimise risk, a substantial proportion of the funds managed by the Administrators have been placed on the money markets. In the six months to 29 October 2015, interest of £48k has been generated by such investments.

Intercompany debtors

On the 24 October 2011, the Administrators, in conjunction with other affiliates, entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement LCMC had its guarantee claim against LBHI agreed at \$8,314,737 and its claim against Lehman Commercial Paper Inc ("LCPI") at \$101,984,667.

On 1 October 2015, LCMC received an eighth distribution from LBHI and LCPI of \$0.2m and \$2.5m, respectively. As at 29 October 2015, LCMC has received \$2m from LBHI and \$66m from LCPI in total.

Such receipts have been converted to GBP to minimise foreign exchange risk.

Further distributions from LBHI and LCPI are expected to be received on a six monthly basis.

Corporation tax

The tax return for the 2014 period end has recently been submitted. The enquiry window for the 2013 period end closed shortly after the reporting period.

Outstanding matters

The Administrators continue to assess their strategy for realising the Company's remaining loans and other assets for the benefit of LCMC's creditors.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9635 of 2008
<i>Full name:</i>	Lehman Commercial Mortgage Conduit Limited
<i>Trading name:</i>	Lehman Commercial Mortgage Conduit Limited
<i>Registered number:</i>	06221756
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	Paul Anthony Sherwood (resigned 31/10/08)
<i>Company secretary:</i>	Emily Sarnia Everard Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	Neither owns shares in LCMC
<i>Date of the Administration appointment:</i>	30 October 2008
<i>Current Administrators' names and addresses:</i>	DA Howell, SA Pearson, AV Lomas, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The director of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LCMC's creditors as a whole than would be likely if LCMC were wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	A fifth extension has been granted by the High Court of Justice to 30 November 2017.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them, however, the most likely is to continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so in June 2013) and then to apply for the dissolution of the Company in due course.
<i>Estimated dividend for unsecured creditors:</i>	To date, the Administrators have declared and paid four interim dividends to the Company's unsecured non-preferential creditors equating to 79.095p in the £, including the fourth distribution of 0.415p in the £, which was made in the reporting period. The timing and quantum of future distributions are uncertain.
<i>Estimated values of the prescribed part and LCMC's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<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 these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

In January 2009, the Administrators sought and received consent from LCMC's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

In Section 6 of this report, there is a summary of the Administrators' time costs for the period 1 April 2015 to 30 September 2015, presented in accordance with the Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for this period total £107,542 plus VAT, which represents 280.72 hours at an average hourly rate of £383. Details of time costs incurred in earlier periods have been provided in earlier reports.

To date, remuneration of £2,648,281 plus VAT has been drawn for time costs incurred to 31 August 2015.

Receipts and payments account

An account of the receipts and payments in the Administration, showing movements in the six month period to 29 October 2015, is set out in Section 5 of this report.

Section 5 Receipts and Payments Account

	GBP			USD		
	As at 29-Oct-15	Movements In Period	As at 29-Apr-15	As at 29-Oct-15	Movements In Period	As at 29-Apr-15
Receipts						
Cash at bank on appointment	14,078,043	-	14,078,043	-	-	-
Residual Interests - Diversity	26,097,872	-	26,097,872	-	-	-
Recoveries on loan portfolio and other assets	141,526,664	288,527	141,238,137	-	-	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	-	-	2,418,970	160,846	2,258,124
Dividend from LCPI	-	-	-	65,659,316	2,520,321	63,138,995
Net tax function costs recharged	1,340	-	1,340	-	-	-
Bank interest	2,178,179	48,166	2,130,013	-	-	-
Contribution towards legal costs	373,188	-	373,188	-	-	-
Third party funds	10,119	-	10,119	-	-	-
Total receipts	184,499,881	336,693	184,163,188	68,078,286	2,681,167	65,397,119
Payments						
Joint Administrators' remuneration	2,648,281	93,761	2,554,520	-	-	-
Joint Administrators' Category 1 disbursements	13,393	-	13,393	-	-	-
Loan portfolio servicing fees	614,221	4,565	609,656	-	-	-
Pension related legal costs	25,570	-	25,570	-	-	-
Legal fees and disbursements	2,766,733	115,063	2,651,670	-	-	-
Employee costs	2,679,990	50,279	2,629,711	-	-	-
IT costs	5,741	-	5,741	-	-	-
Statutory costs	29,456	9,505	19,951	-	-	-
Corporation tax	3,441,379	504,630	2,936,749	-	-	-
Bank charges	722	-	722	692	150	542
Insurance	17,043	-	17,043	-	-	-
Release of funds	121,000	-	121,000	-	-	-
Irrecoverable VAT (see note 1)	1,266,166	44,100	1,222,066	-	-	-
Total payments	13,629,695	821,903	12,807,792	692	150	542
Intracompany Transfer						
Payment	-	-	-	(68,076,594)	(2,680,240)	(65,396,354)
Receipt	42,777,022	1,743,699	41,033,323	-	-	-
Total receipts less total payments	213,647,209	1,258,490	212,388,719	1,000	777	223
Distributions						
1st dividend to unsecured creditors of 45p in the £, declared in September 2013	108,838,719	-	108,838,719	-	-	-
2nd dividend to unsecured creditors of 29.05p in the £, declared in September 2014	70,021,985	-	70,021,985	-	-	-
3rd dividend to unsecured creditors of 4.63p in the £, declared in December 2014	11,183,322	-	11,183,322	-	-	-
4th dividend to unsecured creditors of 0.415p in the £, declared in September 2015	1,002,393	1,002,393	-	-	-	-
Cash in hand / movement in period	22,600,790	256,097	22,344,693	1,000	777	223
Cash Balances						
HSBC (non-interest bearing account)	2,301,750	1,937,857	363,893	1,000	777	223
Money market deposits	20,299,040	(1,681,760)	21,980,800	-	-	-
Total Cash	22,600,790	256,097	22,344,693	1,000	777	223

Notes:

- (1) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
(2) The total GBP equivalent cash in hand at the exchange rate on 29 October 2015 is £22,601,443.

Section 6 Joint Administrators' time costs for the period 1 April to 30 September 2015

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	0.20	133	18.25	8,546	40.60	10,999	42.10	9,772	101.15	29,450
Strategy and planning	0.40	349	8.10	3,562	36.80	10,632	19.75	4,590	65.05	19,133
Statutory and other compliance	33.75	27,050	16.80	7,642	28.40	8,146	6.45	1,482	85.40	44,320
Tax and VAT	5.40	5,754	1.00	672	17.90	6,863	1.15	231	25.45	13,520
LBIE Recharges	0.20	136	0.47	218	1.99	540	1.01	225	3.67	1,119
Grand Total	39.95	33,422	44.62	20,640	125.69	37,180	70.46	16,300	280.72	107,542
Average Hourly Rate										383

Current charge out rates	Business Recovery Services		Specialist		The Administrators' remuneration has been fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration. The minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
	Max £/hr		Max £/hr		
Grade	From 1 January 2015	From 1 July 2015	From 1 January 2015	From 1 July 2015	* Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown given an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.
Partner	873	899	1,225	1,262	
Director	665	788	1,076	1,108	
Senior manager	512	527	905	932	
Manager	431	444	660	680	
Senior Associate	360	371	490	505	
Associate/Support Staff	229	236	229	235	

Narrative of the Joint Administrators' time costs for the period 1 April to 30 September 2015

Accounting and treasury - £29,450

- Implementation of a new credit policy to extend the deposit duration of some of LCMC's counterparties (and thereby increase returns);
- System set up and preparation of documentation to institute new dealing counterparties;
- Completion of additional documentation for LCMC's counterparties as a result of new banking regulations;
- Actively managing investments on the money markets;
- Mitigating risk on investments and giving due consideration of the best strategy for dealing with investments;
- Reconciling bank accounts for the purposes of statutory reporting;
- Arranging receipts and payments of funds and coding of movements; and
- Monitoring flow of funds into the bank accounts.

Strategy and planning - £19,133

- Reviewing strategy for the Administration;
- Reviewing financial information including updating the Estimated Outcome Statement;
- Updating strategy documents;
- Preparation, declaration and distribution of fourth interim dividend;
- Responding to creditor queries;
- Maintaining database of creditor claims;
- Monitoring loan portfolio performance;
- Liaising with loan servicer;
- Reviewing and updating strategy on the overall loan portfolio;
- Making strategic decisions on refinancing options and loan enforcement; and
- Reviewing and analysing settlement proposals.

Statutory and other compliance - £44,320

- Preparation of the Administrators' 13th progress report and extension report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparation of detailed remuneration summary;
- Liaising with Administrators on statutory issues;
- Preparation of the Administrators' six monthly review summary;
- Dealing with statutory issues; and
- Maintaining case files and the LCMC database.

Tax and VAT - £13,520

- Discussions regarding distributions and extension strategy;
- Dealing with corporation tax and VAT queries;
- Preparation of post-appointment tax computations;
- Meetings and discussions with the tax team; and
- Review of documents and discussions regarding tax provision.

LBIE recharges - £1,119

- This is an apportionment of the costs incurred by Lehman Brothers International (Europe) associated with the administration companies.