
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress
report for the period 30 April 2010
to 29 October 2010

25 November 2010

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the fourth 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 the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 29 October 2010.

Objectives of the Administration

The Administrators 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 are 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

Based on the quantum of claims recorded in the Company's records, the Administrators anticipate that there will be funds available to allow a distribution to be made to creditors.

Paragraph 65(3) of Schedule B1 of the Insolvency Act 1986 ("IA86") states that an administrator cannot make a distribution to creditors unless permission to do so is granted by the Court.

The Pensions Regulator listed LCMC as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

The Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that an FSD should not be issued against LCMC. However, as the FSD legal process has not yet been completed, the Administrators are not certain at this stage whether

LCMC will have liability under an FSD. The Administrators therefore need to delay making an application to the Court for permission to make a distribution to creditors.

Given this ongoing process, the timing of the initial dividend to creditors remains uncertain.

If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.


Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011.

Future reports

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

Signed:



DA Howell
Joint Administrator
Lehman Commercial Mortgage Conduit Limited

Section 2 Joint Administrators' actions to date

Overview

LCMC is a subsidiary of LB SF No.1 – in Administration (“LBSF1”). LCMC’s assets comprise a portfolio of loans purchased from Northern Rock with funding from LBSF1.

With the exception of 20 loans, the portfolio was securitised into a Special Purpose Vehicle (“SPV”) known as “Diversity”.

Administrators' actions to date

The Administrators continue to monitor LCMC’s contractual interest in the loans securitised in the Diversity SPV and a further £3.3m was received as deferred consideration in the 6 month period to 29 October 2010. A further £1.4m was received after 29 October 2010 and will be reflected in the next period.

The Administrators have determined that of the 20 loans which were not securitised, LCMC had no title to three of them, one loan has been repaid in full while another two had either been enforced or agreed to be settled with their borrowers at below par. In this period one further loan was repaid in full, previously agreed exit strategies were completed and a further loan was enforced and proceeds collected. In the 6 month reporting period, collections on all loans totalled £31.7m. There are 12 loans outstanding.

The Administrators remain of the opinion that, given the current market conditions, it would not be in the best interests of LCMC’s creditors to sell the loan portfolio at present. This position will be reviewed regularly.

In order to maximise realisations for creditors, and to minimise risks, funds are being actively invested on the money markets.

Extension of the Administration

The Administrators will decide in due course whether a further extension to the period of the Administration is necessary.

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>Administrators' names and addresses:</i>	DA Howell, DY Schwarzmman, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
<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>	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Sole Director of Lehman Commercial Mortgage Conduit Limited (the "Company") has appointed AV Lomas, DY Schwarzmman, GH Martin and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT as joint Administrators of the Company. The joint Administrators will act jointly and severally so that all functions may be exercised by any or all of them. Further to the appointment of MJA Jervis and SA Pearson as additional Administrators, and the resignation of GH Martin, any act required of authorised under any enactment to be done by any or all of the joint administrators may be done by one or more of the persons for that time being holding 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 2011.
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LCMC's net property:</i>	Not applicable as there is no prescribed part
<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

At the meeting of creditors held by correspondence on 6 January 2009, creditors resolved that the Administrators' remuneration 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 on account from time to time.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 May 2010 to 30 September 2010, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

The SIP 9 summary shows that the total time costs for the period are £158,208 which represents 495.8 hours at an average hourly rate of £319.10.

We have previously provided time cost analyses for the period 30 October 2008 to 30 April 2010.

To date, remuneration of £1,115,461 plus VAT has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration to 29 October 2010 is set out overleaf.

Section 5 Receipts and Payments Account

	As at 29 October 2010 GBP (£)	Movements GBP (£)	As at 29 April 2010 GBP (£)
Receipts			
Cash at bank on appointment	14,078,043	-	14,078,043
Residual Interests - Diversity	24,700,374	3,265,467	21,434,907
Recoveries on loan portfolio	51,946,940	31,651,920	20,295,020
Bank Interest	225,563	123,269	102,294
Third party funds received in error	41,222	40,995	227
Total Receipts	90,992,142	35,081,651	55,910,491
Payments			
Joint Administrators' remuneration	1,115,461	119,412	996,049
Loan portfolio servicing fees	318,125	54,081	264,044
Legal fees and disbursements	520,883	78,474	442,409
Joint Administrators' Category 1 disbursements	5,733	-	5,733
Employee costs	171,038	-	171,038
Statutory advertising	968	-	968
Bank charges	687	55	632
Insurance	17,043	-	17,043
VAT paid	315,845	44,082	271,763
Totals Payments	2,465,783	296,104	2,169,679
Net Position	88,526,359	34,785,547	53,740,812
Cash Balances			
HSBC	722,197	288,906	433,291
Money market deposits	87,804,162	34,496,641	53,307,521
Total Cash	88,526,359	34,785,547	53,740,812

Note

Cash not required for day to day expenses of the Administration is invested on the money markets.

Section 6 Joint Administrators' time costs for the period 1 May 2010 to 30 September 2010

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support staff		Total		Average Hourly Rate
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	
Asset Realisations	3.5	1,095	60.9	24,201	20.8	6,656	-	-	85.2	31,952	375.02
Strategy and Planning	21.4	16,985	10.2	4,057	24.2	7,086	-	-	55.8	28,128	504.09
Accounting and Treasury	-	-	62.3	24,928	118.6	34,334	62.1	11,536	243.0	70,798	291.35
Statutory, Compliance and other workstreams	-	-	20.4	6,941	17.8	4,747	14.0	1,788	52.2	13,476	258.16
LBL Recharges	0.4	239	17.6	6,437	20.2	4,695	21.4	2,483	59.6	13,854	232.45
Total	25.3	18,319	171.4	66,564	201.6	57,518	97.5	15,807	495.8	158,208	319.10

The Joint Administrators' policy for charging for disbursements is:

Photocopying is charged at 3p per sheet for creditors and bulk copying

Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)

All other disbursements are charged at cost

Total

Costs to date (£)

-

-

-

-

Current charge out rates Grade	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 remuneration is to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration. *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 give 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 inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.
	Max £/hr	Max £/hr	
Partner	800	980	
Director	610	890	
Senior manager	470	830	
Manager	395	605	
Senior Associate	330	330	
Associate / Support Staff	210	195	

Narrative of the Joint Administrators' time costs for the period 1 May 2010 to 30 September 2010

The following narrative summarises the work undertaken by the Joint Administrators and their staff during the period.

Asset Realisations - £31,952

- Monitor loan portfolio performance
- Making strategic decisions on refinancing options and loan enforcement;
- Liaising with loan servicer; and
- Continuing to assist the servicer of the Diversity SPV.

Strategy and planning - £28,128

- Work carried out on options surrounding loan portfolio;
- Updating strategy on the overall loan portfolio.

Accounting and treasury - £70,798

- Reconciliation of bank accounts;
- Actively investing funds on money markets to ensure appropriate return on funds, whilst minimising risk;
- Preparing receipts and payment vouchers; and
- Monitoring flow of funds into bank accounts.

Statutory, compliance and other workstreams - £13,476

- Dealing with statutory issues;
- Tax and VAT issues;
- Prepare Administrators' progress report; and
- Maintaining case records and database.

LBL recharges - £13,854

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

