
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress
report for the period 30 April 2013
to 29 October 2013

25 November 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the tenth 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 their appointment, with particular focus on the progress made in the six months to 29 October 2013.

Objectives of the Administration

The Administrators are operating a holding strategy for the loan portfolio and 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.

The Administrators declared and paid a first interim dividend of 45 pence in the £ to the Company's unsecured non-preferential creditors on 2 September 2013. The quantum and timing of any further dividend remains uncertain at this stage.

Pension liability

We explained in our most recent report that the Upper Tribunal's decision not to grant the strike-out application that was brought by LCMC and 36 other entities was being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk that we have explained previously of a Financial Support Direction ("FSD") being imposed on LCMC remains in place.

The Supreme Court issued its judgment on 24 July 2013 in a case brought by certain other Lehman entities, whereby it held that liability derived from a FSD would constitute a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential additional unsecured debt rather than an administration expense.

During the period covered by this report LCMC joined with the other 36 entities to establish a collective reserve for the possible FSD liability. However, it was not possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it was therefore not brought into full effect. Following this, LCMC is participating in a court process which may assist in determining whether the entities could make a collective reserve or whether they will need to reserve separately.

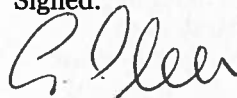
The Administrators continue to monitor the pension issues closely.

Extension of the Administration

The Administrators made an application to the High Court to extend the Administration by a further year to 30 November 2014. The application was granted at a hearing on 24 June 2013.

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

Signed:



GE Bruce
Joint Administrator
Lehman Commercial Mortgage Conduit Limited

AV Lomas, SA Pearson, DA Howell, 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. AV Lomas, SA Pearson, DA Howell, 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 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

LCMC is a subsidiary of LB SF No.1 ("LBSF1"). LCMC's assets comprise the remainder of a portfolio of loans purchased 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

To date, the Administrators have recovered c£26m in respect of LCMC's contractual interest in the loans securitised in Diversity. However, the Administrators do not anticipate any further collections in respect of this asset.

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 three have either been enforced or settled with their borrowers. A further four loans are subject to receivership appointments.

The Administrators continue to actively manage the remaining loans in order to maximise returns for creditors.

The Administrators have continued to retain an employee of Lehman Brothers to work on the outstanding portfolio of loans. Regular strategy meetings are held with the Administrators to ensure that realisations from the loan portfolio are being optimised and prompt action taken on non-performing loans.

In the 6 month reporting period, collections on the portfolio of loans totalled £0.9m.

The Administrators remain of the opinion that, given market conditions and the status and size of the four remaining loans, it is not currently in the best interests of LCMC's creditors to sell the remainder of the loan portfolio.

In order to maximise realisations for creditors, and to minimise risks, funds held by the Administrators are being actively invested on the money markets. In the six months to 29 October 2013, interest of c£560k has been earned from the ongoing investments on the money markets.

On 24 October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. 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.

During the review period, LCMC received the fourth dividends from LBHI and LCPI of \$378,997.60 and \$10,131,356.38, respectively. The dividends were exchanged into sterling to minimise foreign exchange risk.

To date, LCMC has received \$1,326,626.74 from LBHI and \$44,922,651.15 from LCPI in total. Further dividends from LBHI and LCPI are expected to be received on a six monthly basis.

Tax

As previously reported, a tax loss agreement for tax losses reflected in the years 2004 to 2007 was entered into with certain other Lehman group companies. This agreement set out the basis for allocating tax losses, and the value to be paid to loss surrendering companies such as LCMC. This has resulted in receipts of £234,476 to date. No further receipts are expected in relation to this tax loss agreement.

Outstanding matters

The Administrators will continue working towards realising value for the Company's outstanding loans and other assets.

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, 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 fourth extension has been granted by the High Court of Justice until 30 November 2014.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However the most likely exit route from the Administration 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.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 45p in the £ to unsecured non-preferential creditors on 2 September 2013. The quantum and timing of any further dividends remains uncertain at present.
<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

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.

We have previously provided time cost analyses for the period 30 October 2008 to 31 March 2013.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 April 2013 to 30 September 2013, 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 time costs incurred for the period from 1 April 2013 to 30 September 2013 are £181,099, which represents 425.40 hours at an average hourly rate of £426.

To date, remuneration of £2.1m plus VAT has been drawn for time costs incurred to 31 August 2013.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements in the 6 month period to 29 October 2013 is set out overleaf.

Section 5 Receipts and Payments Account

	As at 29 October 2013		As at 29 April 2013		Movements	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
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	120,062,200	-	119,120,860	-	941,340	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	1,326,627	-	947,629	-	378,998
Dividend from LCPI	-	44,922,651	-	34,791,295	-	10,131,356
Net tax function costs recharged	1,340	-	1,340	-	-	-
Bank Interest	1,812,311	-	1,253,136	-	559,175	-
Contribution towards legal costs	361,096	-	298,544	-	62,552	-
Total Receipts	162,647,338	46,249,278	161,084,271	35,738,924	1,563,067	10,510,354
Payments						
Joint Administrators' remuneration	2,103,292	-	1,924,822	-	178,470	-
Joint Administrators' Category 1 disbursements	12,048	-	12,048	-	-	-
Loan portfolio servicing fees	582,314	-	564,385	-	17,929	-
Legal fees and disbursements	1,777,874	-	1,468,052	-	309,822	-
Employee costs	1,523,724	-	1,408,737	-	114,987	-
IT costs	5,741	-	5,741	-	-	-
Statutory costs	1,003	-	1,003	-	-	-
Corporation tax paid	1,867,734	-	1,617,734	-	250,000	-
Bank charges	697	162	691	82	6	80
Insurance	17,043	-	17,043	-	-	-
Release of funds	121,000	-	-	-	121,000	-
Net VAT paid	814,344	-	700,722	-	113,622	-
Total Payments	8,826,814	162	7,720,978	82	1,105,836	80
Intracompany Transfer						
Payment	-	(46,248,100)	-	(35,737,800)	-	(10,510,300)
Receipt	29,240,235	-	22,719,591	-	6,520,644	-
Total receipts less total payments	183,060,759	1,016	176,082,884	1,042	6,977,875	(26)
Distributions						
1st dividend to unsecured creditors of 45p in the £, declared in September 2013	108,838,719	-	-	-	108,838,719	-
Cash in hand / (movement in year)	74,222,040	-	-	-	(101,860,844)	-
Cash Balances						
HSBC (non-interest bearing account)	1,252,651	1,016	151,360	1,042	1,101,291	(26)
Money market deposits	72,969,389	-	175,931,524	-	(102,962,135)	-
Total Cash	74,222,040	1,016	176,082,884	1,042	(101,860,844)	(26)

Note: The total GBP equivalent cash in hand at the exchange rate on 30 October 2013 is £74,222,673.

Section 6 Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013

Classification of work	Partner/Director	Senior Manager/Manager	Senior Associate	Associate/Support Staff	Total hours
	Hours	Hours	Hours	Hours	Hours
Accounting and treasury	-	36.75	52.20	57.35	146.30
Creditors	-	16.30	-	7.20	23.50
Asset realisations	42.50	49.70	-	-	92.20
Statutory and reporting	0.80	4.40	15.75	2.681	33.20
Strategy and planning	60.20	23.60	16.50	6.85	107.15
Tax and VAT	2.20	12.00	0.20	0.10	14.50
I.B.L. recharges	0.17	3.64	2.31	2.43	8.55
Grand Total	105.87	146.39	86.96	86.18	425.40
Average Hourly Rate	704	63,313	23,973	223	181,099

Current charge out rates	Business Recovery Services	Specialist
Grade	Max £/hr	Max £/hr
Partner	873	1,027
Director	665	932
Senior manager	512	905
Manager	431	634
Senior Associate	360	389
Associate/Support Staff	229	253

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 maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

* 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 increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Narrative of the Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013

Accounting and treasury - £43,104

- Managing funds in various institutions in order to mitigate risk;
- Dealing funds on the money markets and inputting deals;
- Reconciling bank accounts;
- Arranging receipts and payments of funds and coding of movements; and
- Monitoring flow of funds into bank accounts.

Creditors - £8,632

- Managing LCMC Administration website;
- Reviewing and adjudicating creditor claims; and
- Preparing for dividend distribution.

Asset realisations - £49,074

- Liaising with loan servicer;
- Continuing to assist the Mortgage Trustee of the Diversity SPV;
- Preparing for legal action stemming from the acquisition of the loan portfolio;
- Extensive discussions and planning for legal action in relation to the appointment of a receiver over one property; and
- Reviewing and analysing settlement proposals.

Statutory and reporting - £9,436

- Preparation of Administrators' ninth progress report;
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Prepare detailed remuneration summary;
- Undertaking six monthly review of Administration;
- Review of time costs in preparation for billing; and
- Maintaining case records and database.

Strategy and planning - £59,483

- Monitoring loan portfolio performance
- Reviewing and updating strategy on the overall loan portfolio;
- Exploring opportunities to dispose of the interest in Diversity;
- Making strategic decisions on refinancing options and loan enforcement;
- Participating in discussions to try and resolve the pension issue; and
- Preparations for and attending the Upper Tribunal pensions hearing.

Tax and VAT - £8,473

- Meetings and discussions with the tax team;
- Preparing tax computations; and
- Dealing with other tax and VAT issues.

LBL recharges - £2,897

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

