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# ***Lehman Commercial Mortgage Conduit Limited – In Administration***

Joint Administrators' progress  
report for the period 30 October  
2012 to 29 April 2013

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17 May 2013

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

This is the ninth 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 April 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 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***

The Administrators previously reported that they intend to apply to Court for permission to pay a dividend to creditors. This application has been necessarily delayed due to unresolved pensions issues including those outlined below.

The Pensions Regulator ("the 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.

In September 2010 the Pensions Regulator's Determinations Panel (the "Panel") decided that an FSD should be issued against six Lehman group entities. LCMC was among 38 companies that the Panel decided should not be issued with an FSD.

The Scheme Trustees have requested that the Upper Tribunal overturns the Panel's decision and rule that the 38 companies (including LCMC)

should also be subject to an FSD. LCMC is still, therefore, at risk from this potential liability, but (together with 36 other affected entities) maintains that the FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. Following a judgment on 14 June 2012, the Upper Tribunal declined the strike out, meaning that LCMC is still at risk of a FSD. An appeal has been made to the Court of Appeal and the hearing began on 29 April 2013. Judgement has been reserved and will be handed down in due course.

The Administrators continue to monitor the pensions issues closely and are seeking an interim resolution.

## ***Change of Administrators***

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DY Schwarzmann and MJA Jervis cease to be Joint Administrators of the Company.

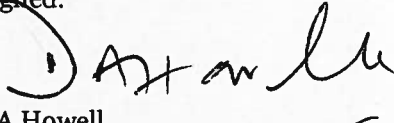
The Court also ordered that former Joint Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

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## ***Future reports***

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

Signed:



DA Howell  
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.*

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## ***Section 2 Joint Administrators' actions to date***

### ***Overview***

LCMC is a subsidiary of LB SF No.1 – in Administration (“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***

The Administrators continue to monitor LCMC’s contractual interest in the loans securitised in Diversity. No recoveries have been made in the period from Diversity. The Administrators continue to monitor the ongoing position.

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 four loans in order to maximise returns for creditors.

The Administrators have continued to retain an employee of Lehman Brothers to work solely 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 £19.7m.

The Administrators remain of the opinion that, given market conditions and the status and size of the 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 April 2013, interest of

£220k 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.

LBHI and LCPI have previously made two distributions, and LCMC has received \$628,154 and \$21.3m respectively from these companies. A third dividend was received from LBHI and LCPI during the period for \$319,475 and \$13.5m. These funds were immediately exchanged to GBP to minimise the foreign exchange risk.

Further dividends from LBHI and LCPI will be received on a six monthly basis.

### ***Outstanding matters***

The Administrators will continue working towards realising value for the Company’s outstanding loans and other assets, and minimising the potential pension liability.

## 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. DY Schwarzmman and MJA Jervis ceased to be Administrators on 22 March 2013.
<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>	The current Joint Administrators are DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 third extension has been granted by the High Court of Justice until 30 November 2013.
<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 Administration is to apply to Court for permission to distribute and then dissolution.
<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>	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.

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## ***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 30 September 2012.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2012 to 31 March 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 October 2012 to 31 March 2013 are £143,851, which represents 362.15 hours at an average hourly rate of £397.21.

To date, remuneration of £1.9m plus VAT has been drawn for time costs incurred to 28 February 2013.

### ***Receipts and payments account***

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

## Section 5 Receipts and Payments Account

	As at 29 April 2013		As at 29 October 2012		Movements	
	GBP (£'000)	USD (\$'000)	GBP (£'000)	USD (\$'000)	GBP (£'000)	USD (\$'000)
<b>Receipts</b>						
Cash at bank on appointment	14,078,043	-	14,078,043	-	-	-
Residual Interests - Diversity	26,097,872	-	26,093,728	-	4,144	-
Recoveries on loan portfolio	119,120,860	-	99,452,407	-	19,668,453	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	947,629	-	628,154	-	319,475
Dividend from LCPI	-	34,791,295	-	21,260,862	-	13,530,433
Net tax function costs recharged	1,340	-	1,340	-	-	-
Bank Interest	1,253,136	-	1,033,581	-	219,555	-
Contribution towards legal costs	298,544	-	298,544	-	-	-
<b>Total Receipts</b>	<b>161,084,271</b>	<b>35,738,924</b>	<b>141,192,119</b>	<b>21,889,016</b>	<b>19,892,152</b>	<b>13,849,908</b>
<b>Payments</b>						
Joint Administrators' remuneration	1,924,822	-	1,799,960	-	124,862	-
Joint Administrators' Category 1 disbursements	12,048	-	12,048	-	-	-
Loan portfolio servicing fees	564,385	-	564,385	-	-	-
Legal fees and disbursements	1,468,052	-	1,314,731	-	153,321	-
Employee costs	1,408,737	-	911,547	-	497,190	-
IT costs	5,741	-	-	-	5,741	-
Statutory costs	1,003	-	1,003	-	-	-
Corporation tax paid	1,617,734	-	-	-	1,617,734	-
Bank charges	691	82	691	82	-	-
Insurance	17,043	-	17,043	-	-	-
Net VAT paid	700,722	-	641,219	-	59,503	-
<b>Total Payments</b>	<b>7,720,978</b>	<b>82</b>	<b>5,262,627</b>	<b>82</b>	<b>2,458,351</b>	<b>-</b>
<b>Intracompany Transfer</b>						
Payment	-	(35,737,800)	-	(21,887,500)	-	(13,850,300)
Receipt	22,719,591	-	13,634,091	-	9,085,500	-
<b>Net Position</b>	<b>176,082,884</b>	<b>1,042</b>	<b>149,563,583</b>	<b>1,434</b>	<b>26,519,301</b>	<b>(392)</b>
<b>Cash Balances</b>						
HSBC (Non-interest bearing account)	151,360	1,042	301,034	1,434	(149,674)	(392)
Money market deposits	175,931,524	-	149,262,549	-	26,668,975	-
<b>Total Cash</b>	<b>176,082,884</b>	<b>1,042</b>	<b>149,563,583</b>	<b>1,434</b>	<b>26,519,301</b>	<b>(392)</b>

**Note:** The total GBP equivalent cash in hand at the exchange rate on 30 April 2013 is £176,083,557.

# Section 6 Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	0.60	503	44.45	18,402	62.55	16,425	43.95	9,669	151.55	44,999
Asset realisations	10.00	8,380	100.50	41,607	0.60	152	-	-	111.10	50,139
Statutory and reporting	-	-	1.00	414	9.70	2,454	0.30	66	11.00	2,934
Strategy and planning	28.30	23,715	22.10	9,149	23.25	5,882	-	-	73.65	38,746
Tax and VAT	2.10	1,986	4.70	2,457	-	-	0.90	136	7.70	4,579
LEL recharges	0.10	63	3.45	1,555	1.32	356	2.28	480	7.15	2,454
<b>Grand Total</b>	<b>41.10</b>	<b>34,647</b>	<b>176.20</b>	<b>73,584</b>	<b>97.42</b>	<b>25,269</b>	<b>47.43</b>	<b>10,351</b>	<b>362.15</b>	<b>143,851</b>

Current charge out rates	Business Recovery		Specialist	
	Services	Max £/hr	Max £/hr	
Partner	838	1,027		
Director	639	932		
Senior manager	492	869		
Manager	414	634		
Senior Associate	346	389		
Associate/Support Staff	220	204		

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

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## ***Narrative of the Joint Administrators' time costs for the period 1 April to 30 September 2012***

### **Accounting and treasury - £44,999**

- 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.

Interest of £220k has been earned in the period

### **Asset realisations - £50,139**

- 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 - £2,934**

- Managing LCMC Administration website;
- Preparation of Administrators' eighth 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 - £38,746**

- 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 - £4,579**

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

### **LBL recharges - £2,454**

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