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

Joint Administrators' progress  
report for the period 30 October  
2013 to 29 April 2014

23 May 2014

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

## **Introduction**

This is the eleventh 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 April 2014.

## **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 Administrators propose to pay a second interim dividend before the end of 2014, although the quantum is yet to be confirmed.

## **Pension liability**

Following the Supreme Court judgment in July 2013, to which we referred in our last report, the stay which had been in force for the Upper Tribunal proceedings came to an end.

The Upper Tribunal has the role of deciding whether a Financial Support Direction ("FSD")

should be made, and against which entities. LCMC is one of the potential targets of a FSD. The Upper Tribunal has set a date in February 2015 for a substantive hearing.

Also, since their previous progress report, the Administrators have participated in a High Court application relating to the maximum quantum of any Contribution Notice ("CN"). The High Court held that the aggregate liability under potential CNs issued to more than one target company could exceed the amount of £119m. This judgment is being appealed.

In light of the activity set out above, the risk of LCMC having a liability to the pension scheme under a FSD remains, and the Administrators continue to monitor the position and take steps as appropriate.

## **Extension of the Administration**

The Administrators made an application to the High Court to extend the Administration to 30 November 2015. The application was granted at a hearing on 24 June 2013.

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 ("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 five loans are subject to receivership or liquidation 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 £1.4m.

Shortly following the reporting period, further realisations of £10.6m were received in respect of two loans.

The Administrators remain of the opinion that, given market conditions and the status and size of the three 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 2014, interest of c£126k 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.

In the review period, LCMC received a fifth distribution from LBHI and LCPI of \$0.4m and \$11.7m respectively.

These funds were immediately exchanged for GBP to minimise the foreign exchange risk. Further dividends from LBSFI and LCPI are expected to be received on a six monthly basis.

On 2 September 2013, the Administrators declared a first interim dividend of 45 pence in the £ to unsecured non-preferential creditors whose claims had been admitted. A reserve of £53.6m has been made for the contingent pension liability.

### ***Corporation Tax***

To date, LCMC has made payments on account of £1.37m in respect of its 2012 corporation tax liability and £1.05m in respect of its anticipated 2013 corporation tax liability. Of these amounts, £550k was paid in the reporting period.

If group relief is found to be available in respect of these periods, the payments on account will be refunded by HM Revenue & Customs, although LCMC will be required to pay for any group relief claimed at a rate of 50% of the tax saving.

### ***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 2015.
<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 Administrators propose to pay a second interim dividend before the end of 2014 although the quantum is yet to be confirmed.
<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***

In January 2009, the Administrators requested 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.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 October 2013 to 31 March 2014, presented in accordance with the Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for this period total £104,753 plus VAT, which represents 259.39 hours at an average hourly rate of £404. Details of time costs incurred in earlier periods have been provided in earlier reports.

To date, remuneration of £2.2m plus VAT has been drawn for time costs incurred to 31 January 2014.

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

An account of the receipts and payments in the Administration showing movements in the 6 month period to 29 April 2014 is set out overleaf.

## Section 5 Receipts and Payments Account

	GBP			USD		
	As at 29-Apr-14	Movements In Period	As at 29-Oct-13	As at 29-Apr-14	Movements In Period	As at 29-Oct-13
<b>Receipts</b>						
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	121,510,784	1,448,584	120,062,200	-	-	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	-	-	1,738,276	411,649	1,326,627
Dividend from LCPI	-	-	-	56,595,863	11,673,212	44,922,651
Net tax function costs recharged	1,340	-	1,340	-	-	-
Bank interest	1,938,120	125,809	1,812,311	-	-	-
Contribution towards legal costs	373,188	12,092	361,096	-	-	-
Receipt under investigation	10,106	10,106	-	-	-	-
<b>Total</b>	<b>164,243,929</b>	<b>1,596,591</b>	<b>162,647,338</b>	<b>58,334,139</b>	<b>12,084,861</b>	<b>46,249,278</b>
<b>Payments</b>						
Joint Administrators' remuneration	2,197,286	93,994	2,103,292	-	-	-
Joint Administrators' Category 1 disbursements	13,393	1,345	12,048	-	-	-
Loan portfolio servicing fees	594,777	12,463	582,314	-	-	-
Legal fees and disbursements	1,951,900	174,026	1,777,874	-	-	-
Employee costs	2,029,493	505,769	1,523,724	-	-	-
IT costs	5,741	-	5,741	-	-	-
Statutory costs	1,003	-	1,003	-	-	-
Corporation tax paid	2,417,734	550,000	1,867,734	-	-	-
Bank charges	697	-	697	242	80	162
Insurance	17,043	-	17,043	-	-	-
Release of funds	121,000	-	121,000	-	-	-
Net irrecoverable VAT (see note 1)	969,454	155,110	814,344	-	-	-
<b>Total</b>	<b>10,319,521</b>	<b>1,492,707</b>	<b>8,826,814</b>	<b>242</b>	<b>80</b>	<b>162</b>
<b>Intracompany Transfer</b>						
Payment	-	-	-	(58,332,881)	(12,084,781)	(46,248,100)
Receipt	36,532,568	7,292,333	29,240,235	-	-	-
<b>Total receipts less total payments</b>	<b>190,456,976</b>	<b>7,396,217</b>	<b>183,060,759</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>
<b>Distributions</b>						
1st dividend to unsecured creditors of 45p in the £, declared in September 2013	108,838,719	-	108,838,719	-	-	-
<b>Cash in hand / (movement in year)</b>	<b>81,618,257</b>	<b>7,396,217</b>	<b>74,222,040</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>
<b>Cash Balances</b>						
HSBC (non-interest bearing account)	415,469	(837,182)	1,252,651	1,016	-	1,016
Money market deposits	81,202,788	8,233,399	72,969,389	-	-	-
<b>Total Cash</b>	<b>81,618,257</b>	<b>7,396,217</b>	<b>74,222,040</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>

### 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 April 2014 is £81,618,860

## Section 6 Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	28.30	12,203	34.65	10,680	54.55	12,492	117.50	35,375
Creditors	-	-	-	-	0.70	252	0.12	27	0.82	279
Asset realisations	-	-	-	-	1.60	576	0.50	115	2.10	691
Statutory and reporting	2.10	1,625	8.60	3,755	12.20	4,005	3.50	802	26.40	10,187
Strategy and planning	32.63	24,091	27.65	11,925	12.20	4,382	4.65	1,065	77.13	41,463
Tax and VAT	1.90	1,398	12.10	6,439	0.35	105	1.20	162	15.55	8,104
Pensions	7.65	5,109	1.35	582	1.80	648	4.45	1,019	15.25	7,358
LBL recharges	0.04	29	0.67	296	1.85	458	2.28	513	4.84	1,296
<b>Grand Total</b>	<b>44.32</b>	<b>32,252</b>	<b>78.67</b>	<b>35,200</b>	<b>65.35</b>	<b>21,106</b>	<b>71.25</b>	<b>16,195</b>	<b>259.59</b>	<b>104,753</b>
<b>Average Hourly Rate</b>	<b>728</b>		<b>447</b>		<b>323</b>		<b>227</b>		<b>404</b>	

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 maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
Grade	Max £/hr	Max £/hr	
Partner	873	1167	* 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.
Director	665	1076	
Senior manager	512	905	
Manager	431	660	
Senior Associate	360	490	
Associate/Support Staff	229	228	



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## ***Narrative of the Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014***

### **Accounting and treasury - £35,375**

- 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 - £279**

- Maintaining database of creditor claims.

### **Asset realisations - £691**

- Reviewing status of claims submitted in other Lehman estates.

### **Statutory and reporting - £10,187**

- Preparation of Administrators' tenth 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 - £41,463**

- 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.

### **Tax and VAT - £8,104**

- Finalising discussions regarding distributions and closure strategy;
- Preparation of post-appointment tax computations;
- Preparation for and commencing Senior Accounting Officer work;
- Meetings and discussions with the tax team; and
- Review of documents and discussions regarding tax provision.

### **Pensions - £7,358**

- Participating in discussions to try and resolve the pension issue; and
- Preparing for and attending the Upper Tribunal pensions hearing.

### **LBL recharges - £1,296**

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