
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress
report for the period 30 October
2015 to 29 April 2016

26 May 2016

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 15th 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 progress made in the six months to 29 April 2016 (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 granted the Administrators permission to make distributions to unsecured creditors.

In the course of the Administration, the Administrators have paid four interim dividends to unsecured creditors with admitted claims. Distributions total c.£191m and equate to 79.095p in the pound.

The Administrators anticipate that further distributions will be made to unsecured creditors, however the quantum and timing are uncertain.

Extension to the Administration

On 5 November 2015, the High Court granted the Administrators' application to extend their term of office by a further 24 months to 30 November 2017.

Future reports

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

Signed:



GE Bruce
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"). LCMC's assets comprised:

- the remainder of a portfolio of loans purchased before the Administration from Northern Rock with funding from LBSF1;
- intercompany claims; and
- an interest in a securitisation special purpose vehicle known as "Diversity".

All but 20 of the loans purchased from Northern Rock were 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, it transpired that LCMC had no title to three of them. Since appointment, six loans have been repaid in full and eight have either been enforced or settled.

The three remaining loans have an estimated realisable value of £4.7m. One of the loans is subject to ongoing enforcement proceedings. The remaining two loans comprise both performing and non performing elements. The Administrators continue to actively monitor recoveries whilst they consider the most appropriate course of action to maximise value for the Company's creditors.

The Administrators are assisted by a Lehman Brothers employee, who has been retained to assist with loan collections. Regular strategy meetings are held to ensure that the proper steps are being taken to maximise recoveries from the Company's remaining loan portfolio assets.

In the reporting period, collections in respect of the loan portfolio totalled £5.4m.

Bank interest received

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 April 2016, interest of c.£45k has been generated from such investments.

Intercompany debtors

On 24 October 2011, the Company acting by its 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 in respect of intercompany claims.

The Plans of reorganisation became effective on 6 March 2012 following approval from the US court. Pursuant to this settlement agreement, LCMC's guarantee claim against LBHI was agreed at \$8.3m and its claim against Lehman Commercial Paper Inc ("LCPI") was adjudicated at \$102m.

On 31 March 2016, LCMC received a ninth distribution from LBHI and LCPI of c.\$45k and c.\$476k, respectively. Receipts from LBHI now total \$2.5m and recoveries from LCPI total \$66.1m.

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

Further distributions from LBHI and LCPI are anticipated on a six monthly basis.

Investigations and actions

Nothing has come to the Administrators' attention in the course of the Administration to suggest that any further work is required in accordance with our duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice 2.

Corporation tax

The tax return for the 2015 period end is currently being reviewed and will be submitted shortly. The enquiry window for the 2014 period end will close on 29 October 2016.

The UK government announced in its March 2016 budget two reforms to the use of corporation tax loss relief that will apply from April 2017, subject to consultation.

As a result of these reforms, companies with significant brought forward tax losses, may potentially become tax paying entities and sooner than previously forecast.

The Administrators will provide further commentary on the implications of this in future reports as and when the outcome of the consultation is known.

Section 3 Statutory and other information

Court details for the Administration: High Court of Justice, Chancery Division, Companies Court - case 9635 of 2008

Full name: Lehman Commercial Mortgage Conduit Limited

Trading name: Lehman Commercial Mortgage Conduit Limited

Registered number: 06221756

Registered address: 7 More London Riverside, London, SE1 2RT

Date of the Administration appointment: 30 October 2008

Current Administrators' names and addresses: DA Howell, SA Pearson, AV Lomas, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

Appointer's/applicants name and address: The director of the Company, 7 More London Riverside, London, SE1 2RT

Objective being pursued by the Administrators: 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).

Division of the Administrators' responsibilities: 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.

Details of any extensions of the initial period of appointment: The High Court of Justice has granted five successive extensions to the Administration period to: 30 November 2010, 30 November 2011, 30 November 2013, 30 November 2015, and more recently to 30 November 2017.

Section 4 Financial information

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 29 April 2016, and a cumulative total since commencement of the Administration is set out in Section 5.

Administrators' expenses

In accordance with revised Statement of Insolvency Practice 9 ("SIP9"), which took effect on 1 December 2015, the Administrators are required to provide a statement of all expenses incurred in the period.

Accordingly, set out in Section 6 of this report is a statement of the expenses that the Administrators have incurred from the date of their appointment to 29 April 2016, together with a comment on future expenses.

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.

In accordance with SIP9, the following information has been provided in Section 7 of this report:-

(i) an analysis of the Administrators' time costs for the period 1 October 2015 to 31 March 2016, including the cumulative total time costs from the date of the Administrators' appointment to 31 March 2016; and

(ii) a summary of the Administrators' time costs for the reporting period, including the key categories of work, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was required by statute.

In line with the creditors' approval, as at 29 April 2016, the Administrators had drawn remuneration of c.£2.8m plus VAT in respect of time costs incurred to 29 February 2016.

Time costs for the reporting period total c.£133k plus VAT, which represents 293.49 hours at an average hourly rate of £452. Details of time costs previously incurred have been provided in earlier reports.

Disbursements

The Administrators are not required to seek approval to draw expenses or disbursements unless they are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying, communication facilities. These types of expenses are called "Category 2" disbursements and they must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves our fees.

The Administrators' expenses policy allows for all properly incurred expenses to be recharged to the Administration.

To date, the Administrators have incurred Category 1 disbursements of £13,542, of which £13,393 has been paid. Category 1 disbursements of £28 were incurred in the reporting period in respect of services provided by third parties.

Creditors' rights

Creditors have the right to ask for information and challenge an administrator's fees if they believe that they are too high. You can find an explanatory note online at:

<http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx>

Creditors can request a paper copy of the above guide by contacting Lehman.affiliates@uk.pwc.com.

Section 5 Receipts and payments account

	GBP			USD		
	As at 29-Apr-16	Movements in period	As at 29-Oct-15	As at 29-Apr-16	Movements in period	As at 29-Oct-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	146,920,380	5,393,716	141,526,664	-	-	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	-	-	2,463,570	44,600	2,418,970
Dividend from LCPI	-	-	-	66,134,885	475,569	65,659,316
Net tax function costs recharged (see note 1)	1,298	-	1,298	-	-	-
Bank interest	2,223,471	45,292	2,178,179	-	-	-
Contribution towards legal costs	373,188	-	373,188	-	-	-
Third party funds	10,119	-	10,119	-	-	-
Total receipts	189,938,847	5,439,008	184,499,839	68,598,455	520,169	68,078,286
Payments						
Joint Administrators' remuneration (see notes 1 and 2)	2,780,654	132,416	2,648,238	-	-	-
Joint Administrators' Category 1 disbursements	13,393	-	13,393	-	-	-
Loan portfolio servicing fees	617,007	2,786	614,221	-	-	-
Pension related legal costs	25,570	-	25,570	-	-	-
Legal fees and disbursements	2,824,340	57,607	2,766,733	-	-	-
Employee costs	3,027,840	347,850	2,679,990	-	-	-
IT costs	6,689	948	5,741	-	-	-
Statutory costs	29,456	-	29,456	-	-	-
Corporation tax	3,441,379	-	3,441,379	-	-	-
Bank charges	722	-	722	842	150	692
Insurance	17,128	85	17,043	-	-	-
Release of funds	121,000	-	121,000	-	-	-
Irrecoverable VAT (see note 3)	1,444,849	178,683	1,266,166	-	-	-
Total payments	14,350,027	720,375	13,629,652	842	150	692
Intracompany transfer						
Payment	-	-	-	(68,596,613)	(520,019)	(68,076,594)
Receipt	43,142,970	365,948	42,777,022	-	-	-
Total receipts less total payments	218,731,790	5,084,581	213,647,209	1,000	-	1,000
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	27,685,371	5,084,581	22,600,790	1,000	-	1,000
Cash balances						
HSBC (non-interest bearing account)	1,062,906	(1,238,844)	2,301,750	1,000	-	1,000
Money market deposits	26,622,465	6,323,425	20,299,040	-	-	-
Total cash (see note 4)	27,685,371	5,084,581	22,600,790	1,000	-	1,000

Notes:

- (1) A prior period adjustment of £43 has been made to recategorise a balance in relation to tax function costs.
- (2) The Joint Administrators have drawn £132,416 in respect of costs incurred between 1 September 2015 and 29 February 2016.
- (3) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- (4) The total GBP equivalent cash in hand at the exchange rate on 29 April 2016 is £27,686,053.

Section 6 Expenses

The following table provides details of the Administrators' expenses. Expenses are defined as amounts payable by the Administrators from the estate, they include the Administrators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities that may be payable as an Administration expense, as amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account in Section 5 of this report, which shows expenses actually paid during the period and the total paid to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the current period of extension, where appropriate.

Sums have been rounded to the nearest £0.1m.

	Brought forward from preceding period £m	Paid in the period £m	Cumulative £m	Incurred and not paid £m	Estimated future £m*	Anticipated total £m
Legal fees and disbursements	2.7	0.1	2.8	0.3	0.3	3.4
Administrators' remuneration and disbursements	2.7	0.1	2.8	-	0.7	3.5
Employee costs	2.7	0.3	3.0	-	0.6	3.6
Loan portfolio servicing fees	0.6	-	0.6	-	0.1	0.7
Irrecoverable VAT	1.2	0.2	1.4	-	0.3	1.7
Other	0.3	-	0.3	-	0.2	0.5
Total	10.2	0.7	10.9	0.3	2.2	13.4

Incurred and not paid Administrators' remuneration and disbursements totals c.£28k.

*Certain classes of future costs are subject to material uncertainty, which prevents the Administrators from providing an accurate estimate of future costs at this time. However, the Administrators have made provisions in respect of their professional fees and legal costs, which are indicated above.

An explanation of the key issues remaining is provided in Section 7 of this report.

Section 7 Joint Administrators' time costs

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	1.60	1,096	12.80	5,743	41.35	11,671	25.65	5,972	81.40	24,482
Strategy and planning	71.60	58,752	23.00	10,303	34.10	9,251	0.40	94	129.10	78,400
Statutory and other compliance	1.30	1,124	11.70	5,253	25.00	6,860	17.65	4,077	55.65	17,314
Tax and VAT	2.00	2,202	11.30	6,669	5.77	1,834	7.15	1,548	26.22	12,253
LBIE recharges	0.02	14	0.09	46	0.98	268	0.03	7	1.12	335
Grand total for the period 1 October 2015 to 31 March 2016	76.52	63,188	58.89	28,014	107.20	29,884	50.88	11,698	293.49	132,784
Average hourly rate for the six month period to 31 March 2016										452
Cumulative total to 31 March 2016										2,794,783

Current charge out rates	Business Recovery Services		Specialist
	Max £/hr	From 1 July 2015	
Grade			
Partner	899	1262	
Director	788	1108	
Senior Manager	527	932	
Manager	444	680	
Senior Associate	371	505	
Associate/Support Staff	236	235	

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.

* 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 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.

Notes:

- The cumulative total refers to the time costs incurred to 31 March 2016, of which £2,780,654 has been paid to date.
- LBIE recharge calculations can result in time units of less than the minimum of three minutes.

Summary of the Joint Administrators' time costs for the six months ended 31 March 2016

Accounting and treasury - £24,482

An essential function for the management of funds held by the Administrators on behalf of the Company, the Administrators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments for the benefit of the Company's creditors. In the reporting period, interest of c.£45k has been generated, compared to the c.£24k + VAT incurred in costs.

- Provision of information for the purposes of statutory reporting;
- Analysis of interest rates available with counterparties;
- Active management of investments on the money market, and mitigating risk on such investments;
- Due consideration of best strategy for dealing with investments;
- Arrangement of receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts; and
- Daily monitoring of the funds held, coordinating with case team to ensure that the optimal level of funds are held on deposit.

Strategy and planning - £78,400

The Administrators and their staff have invested a large proportion of their time in the planning and delivery of their strategy and have made significant progress in the reporting period towards the resolution of the key outstanding matters. The Administrators consider that their actions support their objective of 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) and recently obtained a two year extension of the Administration in order to continue to pursue this objective.

Asset recoveries in the review period total c.£5.4m, compared to associated costs of c.£78k.

- Review of the strategy for the Administration in relation to various matters, regular team meetings to consider case progression;
- Review and maintenance of financial information, including an estimated outcome statement;
- Monitoring loan portfolio performance and making strategic decisions on refinancing options and loan enforcement;
- Liaison with loan servicer;
- Liaison with key stakeholder on a range of issues; and
- Liaison with specialist teams.

Statutory and other compliance - £17,314

The following tasks were undertaken in accordance with the Administrators' statutory obligations or internal compliance.

- Preparation of the Administrators' 14th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for report to creditors;
- Preparation of detailed remuneration summary;

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- Undertaking a six monthly case review of the Administration;
 - Maintaining case files and the Administration database.

Tax and VAT - £12,253

The following tasks were undertaken for VAT and tax compliance purposes.

- Preparing tax computations;
- Dealing with tax and VAT queries;
- Preparation and submission of VAT returns; and
- Reviewing and providing input for correspondence with HM Revenue & Customs.

Lehman Brothers International (Europe) (“LBIE”) recharges - £335

This is an apportionment on the costs levied by LBIE associated with companies which are in administration. The indirect benefit to LCMC’s creditors is through costs savings from the centralisation of services. The charges relate to:

- Administering the Cost Recharge Agreement and issuing charges;
- Providing assistance to the Tax team administering the Group Payment Agent;
- Providing central estate accounting services including forecasting, reporting and application of appropriate controls for shared service costs;
- Controlling and reporting time costs incurred for the provision of shared services and analysing and preparing monthly fee reports on time costs;
- Liaising with LBIE over the closing out of recharge position for building and occupancy and other costs; and
- Dealing with sundry ad-hoc requests.

Estimated future work and other matters

LCMC's principal remaining assets are its three outstanding loans, which have a total estimated realisable value of £4.7m and its admitted unsecured claims against LCPI and LBHI of c.\$102m and c.\$8.3m, respectively.

The Administrators estimate that their future time costs and disbursements to complete the Administration will be circa £0.7m, broadly analysed as follows:

	£m
Accounting and treasury	0.1
Strategy and planning	0.3
Statutory and other compliance	0.2
Tax and VAT	0.1

Relationships

The Administrators have no business or personal relationships with the parties who approve their fees or who provide services to the Administration where the relationship could give rise to a conflict of interest.

Details of subcontracted work

Certain centralised services are undertaken on behalf of LCMC by employees retained by LBIE; this includes the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LCMC on a time costs basis and are disclosed separately as part of the Administrators' time costs analysis.

Legal and other professional firms

The Administrators have instructed the following professionals on this case. The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services:	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
	<i>Dentons UKMEA LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Administrators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment.

