
Lehman Commercial Mortgage Conduit Limited – In Administration

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

28 November 2016

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 16th 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 October 2016 (the "reporting period").

Objectives of the Administration

The Administrators initially operated a holding strategy for the loan portfolio and have pursued 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

Creditors will recall that on 24 June 2013, the Court granted the Administrators permission to make distributions to its unsecured non-preferential creditors.

On 9 September 2016, the Administrators declared and paid a fifth interim dividend of 6.5705p in the £ equivalent to £15.8m to the Company's unsecured, non-preferential creditors, whose claims had been admitted for dividend purposes.

To date, cash distributions equivalent to £206.5m have been made to the Company's unsecured creditors, equating to 85.6655p in the pound.

The Administrators anticipate that a sixth interim distribution will be made in the first quarter of 2017, although the quantum is uncertain.

Future reports

The Administrators' next progress report to creditors will be sent 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 bar 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

As outlined in earlier reports, 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. A further nine have either been enforced or settled.

In the reporting period, the Administrators reached a settlement in respect of one such loan, resulting in a c.£4.5m receipt in full and final settlement.

Of the two remaining loans, one is subject to ongoing enforcement proceedings and the other is non-performing. The Administrators continue to actively pursue the realisation of these assets, seeking 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 continue to be held to ensure that the proper steps are being taken to maximise recoveries.

In the reporting period, collections in respect of the loan portfolio totalled £4.7m.

Bank interest received

To optimise 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 October 2016, interest of c.£42k has been received, of which c.£37k has been generated from such investments.

Intercompany debtors

As previously reported, 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 16 June 2016, LCMC received a 10th distribution from LBHI and LCPI of c.\$66k and c.\$429k, respectively. On 6 October 2016, LCMC received an 11th distribution from LBHI and LCPI of c.\$117k and c.\$1.1m, respectively.

Receipts from LBHI now total c.\$2.7m and recoveries from LCPI total c.\$67.6m.

All receipts in USD 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 has been submitted and the enquiry window will close on 29 October 2017.

The 2015 tax return showed a profit of c.£3.6m. It is currently expected that there should be sufficient

group relief available to shelter the majority of the profits, however due to non-coterminous period ends, it is not clear at this point whether group relief will be available to shelter all profits. However, LCMC previously made payments on account to HM Revenue & Customs ("HMRC") in 2012 and 2013 to cover tax on anticipated profits, as the Administrators were unsure at the time whether there would be enough group relief available for shelter. As a result the Company has currently c.£2.4m credit with HMRC, which will cover any tax that may accrue for 2015. It is expected that as in prior years, any group relief claimed by LCMC will be paid for at 50% of the tax saving. The enquiry windows for 2014 and earlier periods are now closed.

As outlined in the Administrators' previous report, 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 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 October 2016, and a cumulative total since commencement of the Administration is set out in Section 5.

The key movements in the reporting period are set out below:

- Recoveries on the loan portfolio of c.£4.7m;
- Debtor receipts of c.\$1.7m;
- Fifth interim dividend of c.£15.5m and \$490k paid to unsecured non-preferential creditors;
- Group tax relief payments of c.£545k;
- Legal fees and disbursements of c.£190k; and
- Administrators' fees of c.£117k.

Administrators' expenses

As outlined in the Administrators' previous report, Statement of Insolvency Practice 9 ("SIP9"), was revised with effect from 1 December 2015.

As required by SIP9, set out in Section 6 of this report is a statement of expenses incurred by the Administrators since their appointment, together with an estimate of 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:-

(i) an analysis of the Administrators' time costs for the period 1 April to 30 September 2016, including the cumulative total time costs from the date of the Administrators' appointment; 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 October 2016, the Administrators had drawn remuneration of c.£2.9m plus VAT in respect of time costs incurred to 31 August 2016.

Time costs for the six months to 30 September 2016 total c.£124k plus VAT, which represents 335.25 hours at an average hourly rate of £371.

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 the Administrators' fees.

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs and insolvency office holders' insurance.

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

The Administrators incurred Category 1 disbursements of £131 in the six months from 1 April 2016. These have not yet been paid.

No Category 2 disbursements were incurred or paid during the six months to 30 September 2016.

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

Receipts and Payments account to 29 October 2016

	GBP		USD		
	As at 29-Oct-16	Movements in Period	As at 29-Apr-16	As at 29-Oct-16	As at 29-Apr-16
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	151,639,674	4,719,294	146,920,380	-	-
Sale of tax losses	234,476	-	234,476	-	-
Dividend from LBHH	-	-	-	2,646,890	183,320
Dividend from LCPI	-	-	-	67,694,256	1,559,371
Net tax function costs recharged (see note 1)	1,298	-	1,298	-	-
Bank interest	2,265,184	41,713	2,223,471	13	13
Contribution towards legal costs	373,188	-	373,188	-	-
Third party funds	10,119	-	10,119	-	-
Total receipts	194,699,834	4,761,007	189,938,837	70,341,159	68,598,453
Payments					
Joint Administrators' remuneration (see notes 1 and 2)	2,897,737	117,083	2,780,654	-	-
Joint Administrators' Category 1 disbursements	13,393	-	13,393	-	-
Professional fees	23,370	23,370	-	-	-
Loan portfolio servicing fees	618,804	1,797	617,007	-	-
Pension related legal costs	25,570	-	25,570	-	-
Legal fees and disbursements	3,014,960	190,620	2,824,340	-	-
Employee costs	3,029,940	2,100	3,027,840	-	-
IT costs	6,689	-	6,689	-	-
Statutory costs	40,868	11,412	29,456	-	-
Corporation tax	3,986,960	545,581	3,441,379	-	-
Bank charges	722	-	722	1,182	340
Insurance	17,128	-	17,128	-	-
Release of funds	121,000	-	121,000	-	-
Irrecoverable VAT (see note 3)	1,517,435	72,586	1,444,849	-	-
Total payments	15,314,376	964,549	14,350,027	1,182	842
Intra-company transfer					
Payment	-	-	-	(69,848,977)	(1,252,364)
Receipt	44,165,841	1,022,871	43,142,970	-	(68,596,613)
Total receipts less total payments	223,551,119	4,819,329	218,731,790	491,000	1,000
Distributions					
1st dividend to unsecured creditors of 4.5p 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	-	-
5th dividend to unsecured creditors of 6.57p in the £, declared in September 2016	15,500,831	15,500,831	-	490,000	490,000
Cash in hand / movement in period	17,003,869	(10,681,502)	27,685,371	1,000	1,000
Cash balances					
HSBC (non-interest bearing account)	2,137,525	1,074,619	1,062,906	1000	1,000
Money market deposits (note 4)	14,866,344	(11,756,121)	26,622,465	-	-
Total cash (see note 5)	17,003,869	(10,681,502)	27,685,371	1,000	1,000

Notes:

- (1) A prior period adjustment of £43 has been made to reclassify a balance in relation to tax function costs.
- (2) The Joint Administrators have drawn £117,083 + VAT in respect of costs incurred between 1 March and 31 August 2016.
- (3) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- (4) Funds are invested on the money markets in order to accrue interest and to manage risk.
- (5) The total GBP equivalent cash in hand at the exchange rate on 29 October 2016 is £17,004,693.
- (6) All of the Company's assets are uncharged, there being no secured creditors.
- (7) The estimated to realise values of assets shown in the directors' statement of affairs do not represent a meaningful comparison with the current position and are therefore excluded.

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	2.8	0.2	3.0		0.4	3.4
Administrators' remuneration and disbursements	2.8	0.1	2.9		0.6	3.5
Employee costs	3.0	-	3.0	0.1	0.9	4.0
Loan portfolio servicing fees	0.6	-	0.6		0.0	0.6
Irrecoverable VAT	1.4	0.1	1.5		0.2	1.7
Other	0.3	-	0.3		0.2	0.5
Total	10.9	0.4	11.3		2.3	13.7

Incurred and unpaid Administrators' remuneration and disbursements total c.£21k.

*Certain classes of future costs are subject to material uncertainty, which prevent the Administrators from providing a meaningful estimate of future costs at this time. However, the Administrators have made reserves 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
Accounting and Treasury	-	7,958	42.20	12,716	88.60
Strategy and Planning	38.85	30,725	15.55	4,419	27,421
Statutory and Other Compliance	-	-	2.75	810	91.00
Creditors	-	-	11.70	3,441	47,423
Tax and VAT	2.50	2,600	3.10	1,294	34,311
					7,123
					8,046
Total for the period 1 April to 30 September 2016	41.35	33,325	75.30	22,620	335.25
Average hourly rate for the six month period to 30 September 2016					
Cumulative total to 30 September 2016					371
					2,919,107

Current charge out rates	Business Recovery Services	Specialist
	Max £/hr	Max £/hr
Grade	From 1 July 2015	From 1 July 2015
Partner	899	1,262
Director	788	1,108
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 Administrators and their staff in attending to matters arising in the Administration. The minimum unit for time charged by the 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.

Per the agreement with Lehman Brothers International (Europe) ("LBIE")'s creditors' committee, the LBIE charge-out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge-out rates is effective from 1 July 2015 to 30 June 2017, and in line with other Group affiliates controlled by the Firm's office holders, this approach is also used for LCMC.

Notes:

- (i) The cumulative total refers to the time costs incurred to 30 September 2016, of which £2,897,737 has been drawn as fees.

Summary of the Joint Administrators' time costs for the six months ended 30 September 2016

Accounting and treasury - £27,421

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.£42k has been generated, compared to the c.£27k + 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 - £47,423

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).

Asset recoveries in the review period total c.£4.7m, compared to associated costs of c.£47k + VAT.

- 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;
- 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 - £34,311

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

- Preparation of the Administrators' 15th progress report including the consideration and implementation, insofar as practicable, of the revised SIP9 requirements;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of Administrators' time costs for billing purposes;
- Preparation of receipts and payments account for report to creditors;
- Preparation of detailed remuneration summary;
- Undertaking a six monthly case review of the Administration;

-
- Maintaining case files and the Administration database.

Creditors - £7,123

The following tasks were undertaken in order to distribute the Company's assets to its creditors.

- Producing an estimated outcome statement;
- Preparing notice of intended dividend; and
- Calculating and distributing the fifth interim dividend to unsecured non-preferential creditors.

Tax and VAT - £8,046

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

- Preparing tax computations;
- Dealing with tax and VAT queries; and
- Preparation and submission of VAT returns.

Section 9 Estimated future work and other matters

LCMC's principal remaining assets are its two outstanding loans and 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 £0.6m, broadly analysed as follows:

	£m
Accounting and treasury	0.01
Strategy and planning	0.25
Statutory and other compliance	0.20
Tax and VAT	0.05
	<u>0.60</u>

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 Lehman Brothers International (Europe) ("LBIE") and LB SF Warehouse Limited; 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. In the reporting period, LCMC has paid c.£57k in relation to the services detailed below.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Tax Services	LBIE	Prior/Industry knowledge	Time costs
Loan Portfolio Management	LB SF Warehouse Limited	Prior/Industry knowledge	Time costs

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:	Linklaters LLP	Industry knowledge	Time costs
	Dentons UKMEA LLP	Industry knowledge	Time costs

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. The Administrators are satisfied that the level of legal and professional costs is appropriate.