
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress
report for the period 30 October
2016 to 29 April 2017

23 May 2017

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 17th 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 2017 (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

On 24 June 2013, the Court granted the Administrators permission to make distributions to its unsecured creditors.

When the Administrators last reported, they had declared and paid five interim dividends on admitted unsecured creditor claims totalling £241.5m. On 15 March 2017, £6.4m was distributed by way of a sixth interim distribution of 2.67p in the £.

As a result, £213m has now been distributed to the Company's unsecured creditors, equating to a cumulative dividend of 88.34p in the pound.

The Administrators expect that a seventh interim distribution will be declared in Autumn 2017,

although the precise timing and quantum remain 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

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, seven loans have been repaid in full. A further eight have either been enforced or settled.

In the reporting period, the Administrators recovered £840.7k in respect of a loan that was subject to enforcement proceedings. This represents the final collection in respect of this loan.

There remains one final non-performing loan. The Administrators are continuing to pursue the realisation of this asset and presently expect this matter to be resolved shortly.

The Administrators continue to be assisted by a Lehman Brothers employee, who has been retained to assist with loan collections.

Bank interest received

As previously advised, to optimise realisations for creditors and to minimise risk, a substantial proportion of the funds managed by the Administrators has been placed on the money markets. In the six months to 29 April 2017, bank interest of £7.4k has been received, of which c.£6k has been generated from funds held on money markets.

Intercompany debtors

As outlined in prior reports, 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 6 April 2017, LCMC received a 12th distribution from LBHI and LCPI of \$89k and \$1.2m respectively.

To date, LCMC has received \$2.7m from LBHI and \$68.9m from LCPI.

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

Corporation tax

As previously advised, the tax return for the 2015 period end has been submitted and the enquiry window will close on 29 October 2017. The Company currently has c.£2.4m credit with HM Revenue & Customs ("HMRC"), which will cover any tax liability that may accrue for that tax year. It is presently expected that as in prior years, any group relief, which may be claimed by LCMC will be paid for at 50% of the tax saving.

The enquiry windows for 2014 and earlier periods are now closed.

The 2016 corporation tax return is due to be submitted by August 2017.

2017 Finance Bill

The 2017 Finance Bill published by the UK government on 20 March 2017 included legislation in respect of changes to the use of corporation tax loss relief that was expected to apply from April 2017. However, as a result of the forthcoming general election, the Finance Bill has been truncated and measures relating to corporation tax relief have been omitted. It will be a matter for the post-election government to determine the extent to which the provisions will be applied in a new Finance Bill.

The Administrators will provide further commentary on the implications of corporation tax reforms in future reports as and when there is more clarity.

Investigations and actions

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

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 for the six months to 29 April 2017 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.£841k;
- Debtor receipts of c.£1.3m;
- Sixth interim dividend of c.£6.4m paid to unsecured creditors;
- Employee costs of c.£297k; and
- Administrators' fees of c.£66k.

Administrators' expenses

Creditors may recall from earlier reports that Statement of Insolvency Practice number 9 ("SIP9"), issued by the Institute of Chartered Accountants in England and Wales, was revised with effect from 1 December 2015. SIP9 details the disclosure standards required by insolvency office holders in respect of fees, expenses and payments to associates. The revised requirements apply to all open insolvency cases.

Accordingly, set out in Section 6 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 approval 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 October 2016 to 31 March 2017, 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, an explanation

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 2017, the Administrators have drawn total remuneration of £2.9m plus VAT in respect of time costs incurred to 30 November 2016.

Time costs for the six months to 31 March 2017 total c.£137k plus VAT, which represents 396 hours at an average hourly rate of £346.

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 £36 in the six months from 30 October 2016. These have not yet been paid. No Category 2 disbursements were incurred or paid during the six months to 29 April 2017.

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

Joint Administrators' receipts and payments account to 29 April 2017

	As at 29/04/2017	GBP Movements in Period	As at 29/10/2016	As at 29/04/2017	USD Movements in Period	As at 29/10/2016
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 (Note 1)	152,480,394	840,720	151,639,674	-	-	-
Sale of tax losses	234,476	-	234,476	-	-	-
Dividend from LBHI	-	-	-	2,735,900	89,010	2,646,890
Dividend from LCPI	-	-	-	68,964,042	1,269,786	67,694,256
Net tax function costs recharged (see note 2)	1,298	-	1,298	-	-	-
Bank interest	2,272,546	7,362	2,265,184	194	181	13
Contribution towards legal costs	379,885	6,697	373,188	-	-	-
Third party funds	10,119	-	10,119	-	-	-
Total receipts	195,554,633	854,779	194,699,854	71,700,136	1,358,977	70,341,159
Payments						
Joint Administrators' remuneration (see notes 2 and 3)	2,963,366	65,629	2,897,737	-	-	-
Joint Administrators' Category 1 disbursements	13,393	-	13,393	-	-	-
Professional Fees	23,370	-	23,370	-	-	-
Loan portfolio servicing fees	618,804	-	618,804	-	-	-
Pension related legal costs	25,570	-	25,570	-	-	-
Legal fees and disbursements	3,027,611	12,651	3,014,960	-	-	-
Employee costs	3,326,451	296,511	3,029,940	-	-	-
IT costs	6,689	-	6,689	-	-	-
Statutory costs	51,876	11,008	40,868	-	-	-
Corporation tax	3,986,960	-	3,986,960	-	-	-
Bank charges	722	-	722	1,352	170	1,182
Insurance	17,128	-	17,128	-	-	-
Release of funds	121,000	-	121,000	-	-	-
Irrecoverable VAT (see note 4)	1,533,953	16,518	1,517,435	-	-	-
Total payments	15,716,893	402,317	15,314,576	1,352	170	1,182
Intracompany transfer						
Payment	-	-	-	(71,207,784)	(1,358,807)	(69,848,977)
Receipt	45,261,730	1,095,889	44,165,841	-	-	-
Total receipts less total payments	225,099,470	1,548,351	223,551,119	491,000	-	491,000
Less distributions made:-						
1st dividend to unsecured creditors of 45p in the £, declared 2 Sep 2013	(108,838,719)	-	(108,838,719)	-	-	-
2nd dividend to unsecured creditors of 29.05p in the £, declared 2 Sep 2014	(70,021,985)	-	(70,021,985)	-	-	-
3rd dividend to unsecured creditors of 4.63p in the £, declared 9 Dec 2014	(11,183,322)	-	(11,183,322)	-	-	-
4th dividend to unsecured creditors of 0.415p in the £, declared in 2 Sep 2015	(1,002,393)	-	(1,002,393)	-	-	-
5th dividend to unsecured creditors of 6.57p in the £, declared 9 Sep 2016	(15,500,831)	-	(15,500,831)	(490,000)	-	(490,000)
6th dividend to unsecured creditors of 2.67p in the £, declared 15 Mar 2017	(6,449,875)	(6,449,875)	-	-	-	-
Cash in hand / movement in period	12,102,345	(4,901,524)	17,003,869	1,000	-	1,000
Cash balances						
HSBC	2,099,414	(38,111)	2,137,525	1,000	-	1,000
Money market deposits (note 5)	10,002,931	(4,863,413)	14,866,344	-	-	-
Total cash (see note 6)	12,102,345	(4,901,524)	17,003,869	1,000	-	1,000

Notes:

- (1) This recovery relates to the final collection of deferred consideration in relation to a loan portfolio.
- (2) A prior period adjustment of £43 has been made to recategorise a balance in relation to tax function costs.
- (3) The Joint Administrators have drawn £65,629 + VAT in respect of costs incurred between 1 September and 30 November 2016.
- (4) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- (5) Funds are invested on the money markets in order to accrue interest and to manage risk.
- (6) The total GBP equivalent cash in hand at the exchange rate on 29 April 2017 is £12,103,118
- (7) All of the Company's assets are uncharged, there being no secured creditors.
- (8) 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 information in 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 the final amounts becoming due is dependent on the position at the end of the tax accounting period and the impact of any tax reform.

The table should be read in conjunction with the receipts and payments account in Section 5, 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.

	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	3.0	-	3.0	-	0.3	3.3
Administrators' remuneration and disbursements	2.9	0.1	3.0	-	0.7	3.7
Employee costs	3.0	0.3	3.3	-	0.3	3.6
Loan portfolio servicing fees	0.6	-	0.6	-	-	0.6
Irrecoverable VAT	1.5	-	1.5	-	0.2	1.7
Other	0.3	-	0.3	-	-	0.3
Total	11.3	0.4	11.7	-	1.5	13.2

Sums have been rounded to the nearest £0.1m.

*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 8.

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	£
Accounting and Treasury	0.60	473	25.55	11,684	17.90	5,346	39.10	8,863	83.15	26,366
Strategy and Planning	18.85	14,909	30.35	14,096	11.10	3,223	9.35	2,206	69.65	34,434
Statutory and Other Compliance	2.55	2,043	13.55	6,257	16.29	4,995	76.00	17,936	108.39	31,231
Creditors	-	-	13.80	6,127	15.80	4,312	37.05	8,744	66.65	19,183
Tax and VAT	1.40	1,450	15.65	9,209	26.84	10,366	24.30	4,599	68.19	25,624
Total for the period 1 October 2016 to 31 March 2017	23.40	18,875	98.90	47,373	87.93	28,242	185.80	42,348	396.03	136,838
Average hourly rate for the six month period to 31 March 2017										346
Cumulative total to 31 March 2017										3,055,944

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 Joint 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 31 March 2017, of which £2,963,366 has been drawn as fees.

Summary of the Joint Administrators' time costs for the six months ended 31 March 2017

Accounting and treasury - £26,366

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.£7.4k has been generated.

- 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;
- Verifying creditor payment details and processing sixth dividend payments;
- 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 - £34,434

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).

- 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 loan enforcement;
- Liaison with loan servicer;
- Liaison with key stakeholder on a range of issues; and
- Liaison with specialist teams.

Statutory and other compliance - £31,231

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

- Preparation of the Administrators' 16th progress report including implementation, insofar as practicable, of the revised SIP9 requirements;
- Circulating progress report to creditors and updating the dedicated LCMC website with the progress report;
- 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 - £19,183

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

- Updating the estimated outcome statement;
- Preparing and advertising the notice of intended dividend for the sixth interim distribution; and
- Calculating and declared the sixth interim dividend to unsecured creditors.

Tax and VAT - £25,624

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

- Preparation of the corporation tax accounts for the year ending 2016;
- Preparation of VAT reconciliation for the period from 2014 to 2015; and
- Preparation and submission of VAT returns.

Section 8 Estimated future work and other matters

LCMC's principal remaining assets are its outstanding loan 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 £0.7m, broadly analysed as follows:

	£m
Accounting and treasury	0.10
Strategy and planning	0.30
Statutory and other compliance	0.25
Tax and VAT	0.05
	<u>0.70</u>

The nature of the work and benefit for creditors and / or whether it needs to be undertaken for statutory or regulatory reasons will be as outlined in Section 7 in regard to activity for the six months to 31 March 2017. During the next six months, the Administrators will consider whether they need to prepare for an application to court to extend their term of office beyond 30 November 2017.

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 and LB SF Warehouse Limited; these include the provision of certain tax and VAT services and key staff resource. The costs of such services are recharged to LCMC. In the reporting period, LCMC paid c.£297k in relation to the services detailed below and including wages (and includes an annual bonus) and serviced office costs relevant to this period and prior periods. These are shown as employee costs in the receipts and payments account in Section 5.

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

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