
Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress report for the period 30
October 2017 to 29 April 2018

24 May 2018

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the Joint Administrators' (the "Administrators") 19th progress report on the Administration of Lehman Commercial Mortgage Conduit Limited ("LCMC" or the "Company").

The Administrators are required to provide certain statutory information which is shown in Section 3.

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 six months to 29 April 2018 ("the reporting period") together with a summary of the steps taken during the Administration and the outcome for creditors.

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.

During the reporting period, the Administrators commenced steps to distribute in specie LCMC's remaining non-cash assets. A further update will be provided in their next report.

Total cash distributions equivalent to £223.6m have been paid to the Company's unsecured creditors,

equating to a cumulative dividend of 92.59p in the pound.

Notice of intention to declare a final cash distribution to unsecured creditors has been published. The Administrators expect to pay a final cash distribution in the coming weeks.

Future reports

The Administrators will next report to creditors in approximately six months' time or at the end of the administration, whichever is sooner.

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

Overview

At the time of the 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 recovered £26m in respect of LCMC's contractual interest in the loans securitised in Diversity.

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 ten have either been enforced or settled.

The Administrators have realised a total of £152.6m in respect of the loan portfolio.

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 had been placed on the money markets prior to payment of the seventh distribution to unsecured creditors in September 2017. Since that distribution, remaining funds have no longer been deposited on the money markets as it has not been economical to do so.

The Company has received £2.3m in cumulative bank interest from the start of the Administration to the end of the reporting period.

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.

In the reporting period, LCMC received sums of \$114k and \$337k from LBHI and LCPI, respectively.

LCMC has received a total of \$2.9m from LBHI and \$72.1m from LCPI since the Administration began

Final distribution to creditors

On 15 December 2017, £27.5k was paid to Lehman Brothers Europe Limited in administration ("LBEL") in settlement of LBEL's admitted claim.

The Administrators have provided formal notice to LBHI that LCMC will make a distribution in specie of the Company's remaining non-cash assets, including the receivables due from both LBHI and LCPI. This will be the eighth interim distribution to creditors with a declaration of the quantum and timing of the distribution to follow in due course.

The Administrators will declare and pay a ninth and final cash distribution shortly with formal notice to appear on the Company's website.

The above distributions will conclude the material matters in the Administration.

Corporation tax

The corporation tax returns for the period ended 16 August 2017 (cessation of trade) and the final period to 31 March 2018, along with the tax clearance application, were submitted to HM Revenue & Customs ("HMRC") on 19 April 2018. Both tax returns reflected small losses for the periods. All corporation tax returns up to and including the year ended 30 October 2015 have been agreed by HMRC. The Company received a repayment of its £2.4m credit with HMRC in February 2018 along with c.£40k of interest.

Regulatory obligations

The Administrators have met their obligations under the Senior Accounting Officer legislation and submitted the 2016 certificate and notification, and complied with their obligations regarding the publication of the Lehman Group Tax Strategy. The 2017 SAO certificate will be submitted prior to the filing deadline of 31 August 2018.

The Administrators have also adhered to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards and have considered their obligations under the new Corporate Criminal Offence rules which came into effect in September 2017.

Investigations and actions

Nothing came to the Administrators' attention in the course of the Administration or to suggest that any further work was 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

<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>	7 More London Riverside, London, SE1 2RT
<i>Date of the Administration appointment:</i>	30 October 2008
<i>Current 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/applicants name and address:</i>	The directors of the Company, 7 More London Riverside, London, SE1 2RT
<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>	The High Court of Justice has granted six successive extensions to the Administration period to: 30 November 2010; 30 November 2011; 30 November 2013; 30 November 2015; 30 November 2017; and 30 November 2018.

Section 4 Financial information

Receipts and payments account

Provided in Section 5 is the receipts and payments accounts for the six month period to 29 April 2018 together with cumulative totals since commencement of the Administration.

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.

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 2017 to 31 March 2018, including the cumulative total time costs from the date of the Administrators' appointment; and

(ii) a summary of the Administrators' time costs for the period 1 October 2017 to 31 March 2018, 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 31 March 2018, the Administrators have drawn total remuneration of £3.4m plus VAT in respect of time costs incurred to 31 March 2018.

Time costs for the six months to 31 March 2018 total £155k plus VAT, which represents 409 hours at an average hourly rate of £379.

Disbursements

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

The Administrators are not required to seek approval to draw Category 1 disbursements. Category 2 disbursements, which are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying and communication facilities, 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.

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

Category 1 disbursements incurred during the reporting period total £8 plus VAT. Category 2 disbursements of £20k were incurred, approved and paid in the period.

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 for the period 30 October 2017 to 29 April 2018

	GBP		USD			
	As at 29/04/2018	Movements in Period	As at 29/10/2017	As at 29/04/2018	Movements in Period	As at 29/10/2017
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 (see note 1)	152,585,192	4,798	152,580,394	-	-	-
Sale of tax losses	234,476	-	234,476	-	-	-
Corporation tax overpayment plus interest (see note 2)	2,476,834	2,476,834	-	-	-	-
Dividend from LBHI	-	-	-	2,906,574	113,734	2,792,840
Dividend from LCPI	-	-	-	72,064,072	337,214	71,726,858
Net tax function costs recharged	1,298	-	1,298	-	-	-
Bank interest	2,289,893	4,987	2,284,906	754	416	338
Contribution towards legal costs	384,265	4,380	379,885	-	-	-
Third party funds	10,119	-	10,119	-	-	-
Total receipts	198,157,992	2,490,999	195,666,993	74,971,400	451,364	74,520,036
Payments						
Joint Administrators' remuneration (see note 3)	3,375,160	263,617	3,111,543	-	-	-
Joint Administrators' Category 1 disbursements	13,393	-	13,393	-	-	-
Joint Administrators' Category 2 disbursements	20,000	20,000	-	-	-	-
Professional Fees	23,370	-	23,370	-	-	-
Loan portfolio servicing fees	620,012	1,208	618,804	-	-	-
Pension related legal costs	25,570	-	25,570	-	-	-
Legal fees and disbursements	3,066,894	29,510	3,037,384	-	-	-
Employee costs	3,432,115	105,664	3,326,451	-	-	-
IT costs	6,689	-	6,689	-	-	-
Statutory costs	81,583	21,124	60,459	-	-	-
Corporation tax	3,986,960	-	3,986,960	-	-	-
Purchase of tax losses (see note 4)	363,886	363,886	-	-	-	-
Bank charges	722	-	722	1,777	255	1,522
Insurance	17,128	-	17,128	-	-	-
Release of funds	121,000	-	121,000	-	-	-
Irrecoverable VAT (see note 5)	1,635,393	66,794	1,568,599	-	-	-
Total payments	16,789,876	871,803	15,918,072	1,777	255	1,522
Intracompany transfer						
Payment	-	-	-	(74,479,623)	(452,109)	(74,027,514)
Receipt	47,727,471	321,350	47,406,121	-	-	-
Total receipts less total payments	229,095,587	1,940,545	227,155,042	490,000	(1,000)	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)	-	-	-
7th dividend to unsecured creditors of 4.260p in the £, declared 11 Sep 2017	(10,290,495)	-	(10,290,495)	-	-	-
Cash distribution to minority creditor on 15 December 2017 (see note 6)	(27,500)	(27,500)	-	-	-	-
Total distributions	(223,315,120)	(27,500)	(223,287,620)	(490,000)	-	(490,000)
Cash in hand / movement in period	5,780,467	1,913,045	3,867,422	-	(1,000)	1,000
Cash balances						
HSBC	5,780,467	1,913,045	3,867,422	-	(1,000)	1,000
Total cash	5,780,467	1,913,045	3,867,422	-	(1,000)	1,000

Notes:

- (1) The amount of £4.8k relates to a final recovery of outstanding costs.
- (2) Repayment from HMRC of the Company's credit of £2.4m including interest of c£40k.
- (3) The Joint Administrators have drawn £264k + VAT in respect of costs incurred between 1 June 2017 and 31 March 2018.
- (4) The Company purchased tax losses from the tax group during the period.
- (5) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- (6) A cash distribution of £27.5k was made to LCMC's minority creditor in lieu of their share of any future recoveries from LBHI and LCPI.
- (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 any final amounts that may become due are 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 accounts in Section 5, which shows expenses actually paid during the period and the total paid to date.

	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	3.3	-	3.3	-	-	3.3
Administrators' remuneration and disbursements	3.6	0.3	3.9	0.1	0.1	4.1
Employee costs	3.7	0.1	3.8	-	-	3.8
Statutory costs	0.1		0.1	-	-	0.1
Loan portfolio servicing fees	0.6	-	0.6	-	-	0.6
Purchase of tax losses	-	0.4	0.4	-	-	0.4
Irrecoverable VAT	1.6	0.1	1.7	-	-	1.7
Other	0.3	-	0.3	-	-	0.3
Total	13.2	0.9	14.1	0.1	0.1	14.3

Sums have been rounded to the nearest £0.1m.

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	-	-	19.00	9,015	30.05	10,247	30.50	7,473	79.55	26,735
Strategy and Planning	9.55	7,831	35.45	17,517	7.05	2,087	1.70	417	53.75	27,852
Statutory and Other Compliance	0.50	410	43.20	20,706	21.80	6,356	-	-	65.50	27,472
Creditors	9.90	8,233	34.85	17,120	84.80	23,933	18.70	4,582	148.25	53,868
Tax and VAT	2.40	2,663	7.90	4,908	18.35	5,087	33.65	6,676	62.30	19,334
Total for the period 1 October 2017 to 31 March 2018	22.35	19,137	140.40	69,266	162.05	47,710	84.55	19,148	409.35	155,261
Average hourly rate for the period 1 October 2017 to 31 March 2018										379
Cumulative total to 31 March 2018										3,375,161

Current charge out rates	Business Recovery Services	Specialist
	Max £/hr	Max £/hr
Grade	From 1 July 2017	From 1 July 2017
Partner	935	1,312
Director	820	1,152
Senior Manager	548	969
Manager	462	707
Senior Associate	386	525
Associate/Support Staff	245	244

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 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.

Charge-out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge-out rates was effective from 1 July 2015 to 30 June 2017. An increase of 4% in charge-out rates is effective from 1 July 2017, and in line with other Group affiliates controlled by PricewaterhouseCoopers LLP's office holders, this approach is also used for LCMC.

Notes:

- (i) The cumulative total refers to the time costs incurred to 31 March 2018, of which £3,375,160 has been drawn as fees.

Summary of the Joint Administrators' time costs for the period 1 October 2017 to 31 March 2018

Accounting and treasury - £26,735

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.

- Provision of information for the purposes of statutory reporting;
- 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;
- Monitoring of the funds held, coordinating with case team to assess whether optimal level of funds are available on deposit; and
- Preparation of Administrators' time costs for billing purposes.

Strategy and planning - £27,852

The Administrators and their staff have invested a large proportion of their time in the planning and delivery of their strategy. This has resulted in 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).

- Review of the strategy for the Administration in relation to various matters, regular team meetings to resolve outstanding matters;
- Review and maintenance of financial information;
- Devising and reaching a settlement regarding LBEL's claim;
- Liaising with the relevant parties to facilitate a distribution in specie in respect of LCMC's remaining non cash assets; and
- Liaison with specialist teams.

Statutory and other compliance - £27,472

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

- Preparation of the Administrators' 18th progress report including implementation, insofar as practicable, of the SIP9 requirements;
- Circulating the 18th progress report to creditors and updating the dedicated LCMC website with the progress report;
- Statutory filings at Companies House and Court;
- 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;
- Reviewing documents in relation to the Administrators' application to extend the Administration; and
- Ensuring statutory obligations have been fulfilled prior to case closure.

Creditors - £53,868

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

- Updating the estimated outcome statement;
- Preparing and advertising the notices of intended dividend for the eighth and ninth distributions; and
- Planning for the distribution in specie, including calculation and review of legal documentation.

Tax and VAT - £19,334

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

- Preparation and submission of the corporation tax return for the year ending 2017;
- Requesting tax clearance from HMRC;
- Finalising the VAT reconciliations for the 2017 VAT return and disclosing necessary adjustments to HMRC

Section 8 Other matters

LCMC's principal remaining assets are 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 c.£50k, broadly analysed as follows:

	£'000
Accounting and treasury	10
Strategy and planning	5
Statutory and other compliance	20
Creditors	10
Tax and VAT	5
Total	50

Relationships

The Administrators had no business or personal relationships with the parties who approved their fees or who provided services to the Administration where the relationship could have given rise to a conflict of interest.

Details of subcontracted work

Certain centralised services were undertaken on behalf of LCMC by employees retained by Lehman Brothers International (Europe) and LB SF Warehouse Limited; these included the provision of certain tax and VAT services and key staff resource. The costs of such services were recharged to LCMC. Prior costs 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	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 instructed the following professionals on this case. The selection of individual legal firms was determined by the jurisdiction and nature of the advice being sought, and whether a conflict existed.

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

	<i>Pinsent Masons LLP</i>	<i>Industry knowledge</i>	<i>Fixed</i>
	<i>Reed Smith LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
	<i>Eversheds Sutherland (International) LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Administrators were required to provide a narrative explanation in support of invoices. All invoices were reviewed before being approved for payment. The Administrators are satisfied that the level of legal and professional costs is appropriate.