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

Joint Administrators' progress  
report for the period 30 October  
2010 to 29 April 2011

26 May 2011

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

## ***Introduction***

This is the fifth progress report prepared by the Joint Administrators (the "Administrators") of Lehman Commercial Mortgage Conduit Limited ("LCMC" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 29 April 2011.

## ***Objectives of the Administration***

The Administrators 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 are 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***

Based on current information, the Administrators anticipate that there will be a distribution to unsecured creditors.

As previously advised, the Pensions Regulator listed LCMC as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

The Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that a Financial Support Direction should not be issued against LCMC. However, as the FSD legal process has not yet been completed, the Administrators are not certain at this stage that LCMC will not have liability under an FSD. Accordingly, the Administrators have written to the trustees of the pension scheme in order to obtain clarification on whether a liability under an FSD will fall to LCMC.

Given the ongoing uncertainty regarding the FSD process, the timing of any dividend to creditors remains uncertain.

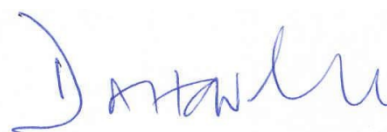
## ***Extension of the administration***

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011. In light of the outstanding pension issue and ongoing asset realisations, the Administrators are expecting to apply to Court for a further extension to the Administration in due course.

## ***Future reports***

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

Signed:



DA Howell  
Joint Administrator  
Lehman Commercial Mortgage Conduit Limited

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## ***Section 2 Joint Administrators' actions to date***

### ***Overview***

LCMC is a subsidiary of LB SF No.1 – in Administration (“LBSF1”). LCMC’s assets comprise a portfolio of loans purchased from Northern Rock with funding from LBSF1.

With the exception of 20 loans, the portfolio was securitised into a Special Purpose Vehicle (“SPV”) known as “Diversity”.

£170k has been realised from the ongoing investments on the money markets.

### ***Administrators' actions to date***

The Administrators continue to monitor LCMC’s contractual interest in the loans securitised in the Diversity SPV and a further £1.39m was received in the period to 29 April 2011 in respect of deferred consideration. No further payments are expected in respect of deferred consideration. However, the Administrators will continue to monitor LCMC’s contractual interests in the Diversity SPV.

Of the 20 loans which were not securitised, LCMC had no title to three of them. Since appointment, two loans have been repaid in full and three have either been enforced or settled with their borrowers at below par.

The Administrators have continued to retain an employee of Lehman Brothers to work solely on the outstanding portfolio of loans. Regular strategy meetings are held with the Administrators to ensure that realisations from the loan portfolio are being optimised and prompt action taken on non-performing loans. As a consequence of the active management of the portfolio, receivers have been appointed in respect of three of the loans where there have been breaches of the loan terms.

In the 6 month reporting period, collections on the portfolio of loans totalled £2.4m.

Out of the original 20 loans, there are 12 loans outstanding.

The Administrators remain of the opinion that, given the current market conditions, it would not be in the best interests of LCMC’s creditors to sell the loan portfolio at present. This position will continue to be reviewed regularly.

In order to maximise realisations for creditors, and to minimise risks, funds held by the Administrators are being actively invested on the money markets. In the six months to 29 April 2011, interest of

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9635 of 2008
<i>Full name:</i>	Lehman Commercial Mortgage Conduit Limited
<i>Trading name:</i>	Lehman Commercial Mortgage Conduit Limited
<i>Registered number:</i>	06221756
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	Paul Anthony Sherwood (resigned 31/10/08)
<i>Company secretary:</i>	Emily Sarnia Everard Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	Neither owns shares in LCMC
<i>Date of the Administration appointment:</i>	30 October 2008
<i>Administrators' names and addresses:</i>	DA Howell, DY Schwarzmann, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT
<i>Appointer's name and address:</i>	The director of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LCMC's creditors as a whole than would be likely if LCMC were wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	The current joint administrators of LCMC are DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmann of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted an extension of the Administration to 30 November 2011.
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LCMC's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

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## ***Section 4 Financial Information***

### ***Administrators' remuneration***

At the meeting of creditors held by correspondence on 6 January 2009, creditors resolved that the Administrators' remuneration 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 on account from time to time.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2010 to 28 February 2011, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

The SIP 9 summary shows that the total time costs incurred for the six months to 29 April 2011 are £114,849 which represents 323.50 hours at an average hourly rate of £355.02.

We have previously provided time cost analyses for the period 30 October 2008 to 30 September 2010.

To date, remuneration of £1,261,627 plus VAT has been drawn.

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

An account of the receipts and payments in the Administration to 29 April 2011 is set out overleaf.

## Section 5 Receipts and Payments Account

	As at 29 April 2011 GBP (£)	Movements GBP (£)	As at 29 October 2010 GBP (£)
<b>Receipts</b>			
Cash at bank on appointment	14,078,043	-	14,078,043
Residual Interests - Diversity	26,089,516	1,389,142	24,700,374
Recoveries on loan portfolio	54,278,934	2,331,994	51,946,940
Bank Interest	395,813	170,250	225,563
Contribution towards costs	90,000	90,000	-
Third party funds received in error	-	(41,222)	41,222
VAT Received	44,815	44,815	-
<b>Total Receipts</b>	<b>94,977,121</b>	<b>3,984,979</b>	<b>90,992,142</b>
<b>Payments</b>			
Joint Administrators' remuneration	1,261,627	146,166	1,115,461
Joint Administrators' Category 1 disbursements	5,733	-	5,733
Loan portfolio servicing fees	340,325	22,200	318,125
Legal fees and disbursements	603,306	82,423	520,883
Employee costs	470,893	299,855	171,038
Statutory advertising	968	-	968
Bank charges	687	-	687
Insurance	17,043	-	17,043
VAT paid	360,228	44,383	315,845
<b>Total Payments</b>	<b>3,060,810</b>	<b>595,027</b>	<b>2,465,783</b>
<b>Net Position</b>	<b>91,916,311</b>	<b>3,389,952</b>	<b>88,526,359</b>
<b>Cash Balances</b>			
HSBC (Non-interest bearing account)	657,464	(64,733)	722,197
Money market deposits	91,258,847	3,454,685	87,804,162
<b>Total Cash</b>	<b>91,916,311</b>	<b>3,389,952</b>	<b>88,526,359</b>

### Note

Cash not required for day to day expenses of the Administration is invested on the money markets.

## *Section 6 Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011*

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support staff		Total		Average Hourly Rate
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	
Asset Disposals	1.5	915	9.4	3,714	-	-	-	-	10.9	4,629	424.68
Strategy and Planning	25.6	20,480	24.8	9,803	22.5	7,425	-	-	72.9	37,708	517.26
Accounting and Treasury	-	-	45.3	18,559	68.5	20,924	44.6	8,489	158.4	47,972	302.85
Tax and VAT	-	-	0.7	581	-	-	-	-	0.7	581	830.00
Reporting	-	-	-	-	15.5	5,065	-	-	15.5	5,065	326.77
Creditors and Counterparties	-	-	0.4	188	-	-	-	-	0.4	188	470.00
LBL Recharges	3.2	2,016	30.1	10,734	20.1	4,229	11.3	1,727	64.7	18,706	289.12
<b>Total</b>	<b>30.3</b>	<b>23,411</b>	<b>110.7</b>	<b>43,579</b>	<b>126.6</b>	<b>37,643</b>	<b>55.9</b>	<b>10,216</b>	<b>323.5</b>	<b>114,849</b>	<b>355.02</b>

The Joint Administrators' policy for charging for disbursements is:

	Costs to date (£)
Photocopying is charged at 3p per sheet for creditors and bulk copying	-
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)	-
All other disbursements are charged at cost	-
<b>Total</b>	<b>-</b>

Current charge out rates	Business Recovery Services	Specialist*	The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The remuneration is to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration  *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 inflationary cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.
Grade	Max £/hr	Max £/hr	
Partner	800	980	
Director	610	890	
Senior manager	470	830	
Manager	395	605	
Senior Associate	330	330	
Associate / Support Staff	210	195	



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## ***Narrative of the Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011***

The following narrative summarises the work undertaken by the Joint Administrators and their staff during the period.

### **Asset Disposals - £4,629**

- Liaising with loan servicer; and
- Continuing to assist the servicer of the Diversity SPV.

### **Strategy and Planning - £37,708**

- Monitor loan portfolio performance;
- Work carried out on options surrounding loan portfolio;
- Making strategic decisions on refinancing options and loan enforcement;
- Reviewing and updating strategy on the overall loan portfolio.

### **Accounting and Treasury - £47,972**

- Actively investing funds on money markets to ensure appropriate return on funds, whilst minimising risk;
- Reconciliation of bank accounts;
- Preparing and effecting receipts and payment; and
- Monitoring flow of funds into bank accounts.

### **Tax and VAT - £581**

- Tax and VAT issues.

### **Statutory and Reporting - £5,065**

- Dealing with statutory issues;
- Prepare Administrators' fourth progress report; and
- Maintaining case records and database.

### **Creditors and Counterparties - £188**

- Dealing with creditor query.

### **LBL recharges - £18,706**

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

