
Storm Funding Limited – In Administration

Joint Administrators' progress
report for the period 23 March 2014
to 22 September 2014

20 October 2014

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the twelfth progress report by the Joint Administrators (the "Administrators") of Storm Funding Limited ("Storm" or the "Company").

Creditors should have received the Administrators' proposals (the "Proposals") dated 12 November 2008 which were approved at a meeting of creditors held on 27 November 2008, and the Administrators' eleven previous progress reports. If any creditor requires copies of these reports, please contact Nigel Rackham at PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. Alternatively, these are also available on the Administrators' website www.pwc.co.uk/business-recovery/administrations/lehman/storm-funding-limited-in-administration.jhtml.

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 22 September 2014 (the "Period").

Business activities

Storm is a wholly-owned subsidiary of Mable Commercial Funding Limited (in Administration) ("Mable").

Storm principally held residential and commercial mortgage-backed securities issued by special purpose vehicles and also provided financing across the Lehman Group.

Storm utilised employees from Lehman Brothers Limited (in Administration) and operated from the Lehman Group's former premises at 25 Bank Street, London, E14 5LE.

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for Storm's creditors as a whole than would be likely if Storm were wound up (without first being in Administration).

The specific aims of this Administration are to:

- Protect and manage Storm's portfolios of assets; and
- Realise these assets, principally mortgage-backed securities, on a managed basis.

Creditors' Committee

A Creditors' Committee has not been formed.

Outcome for creditors

On 24 June 2013, the High Court of Justice made an Order pursuant to paragraph 65(3) of Schedule B1 of the Insolvency Act 1986, granting permission to make distributions to unsecured creditors of Storm.

Storm paid a third interim dividend of 10 pence in the pound on 8 May 2014. The total paid in this distribution by way of dividends to creditors with agreed claims was £218m.

A fourth interim dividend of 4.6 pence in the pound was paid on 10 September 2014. The total paid in this distribution by way of dividends to creditors with agreed claims was £101m.

This takes the cumulative interim dividend to 32 pence in the pound and aggregate payments to £699m.

The Administrators are unable to provide an estimate of any further dividends as this is dependent upon the agreement of remaining claims and further asset recoveries, each of which are uncertain.

Future reports

The Administrators will report to creditors in approximately six months' time. The Administrators will contact creditors before this with any material developments.

Signed:



D Y Schwarzmman

Joint Administrator
Storm Funding Limited

DY Schwarzmman, AV Lomas, SA Pearson, and J G Parr were appointed as Joint Administrators of Storm Funding Limited to manage Storm's affairs, business and property as agents without personal liability. DY Schwarzmman, AV Lomas, SA Pearson and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

DY Schwarzmman, AV Lomas, SA Pearson, and JG Parr 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

Progress to date

Securities held in Lehman depository accounts

As reported previously, the Administrators have agreed the population of Storm's securities held in Lehman depository accounts and filed an affiliate asset claim against Lehman Brothers International (Europe) (in administration) ("LBIE"). The Administrators entered into an Investment Management Agreement with LBIE whereby it markets and realises these securities on behalf of Storm.

As part of the recovery exercise it was also discovered that a number of securities were no longer held in the Lehman depository accounts and as a result an unsecured claim was submitted to LBIE (the "Shortfall Claim").

Additional securities have been realised in the Period totalling £22.0m. The aggregate recovery, including funds from corporate actions and interest, is £248.8m (GBP equivalent at 22 September 2014 exchange rates).

Inter-company debtors - LBIE

In addition to the Shortfall Claim, Storm also has a claim against LBIE arising from a repo/reverse repo arrangement ("Repo Claim"). Both the Shortfall Claim and the Repo Claim involved issues of security valuation. After extensive evaluation, the claims were agreed with LBIE in March 2014. After taking into account an offsetting, small intercompany balance owed to LBIE, the net claim amounts to approximately £158m owed to Storm. The claim was agreed on the basis that Storm waives its entitlement to statutory interest accrued before 31 August 2012.

On 30 April 2014, Storm received a catch up dividend of approximately £158m, representing a total distribution of 100 pence in the pound.

Inter-company debtors – US affiliates

As mentioned in previous reports, Storm's total claim against the various US affiliates has been agreed at \$1.1bn. Storm has received interim

dividends from the US affiliates in aggregate up to the end of the Period totalling \$304m, with \$69m received in the Period.

Due to market conditions, Storm actively sought to sell its direct claim against Lehman Brothers Holdings Inc (the "Direct Claim"). The Company, with LBIE acting on its behalf, ran a Bids Wanted in Competition ("BWIC") auction process, targeting a pool of dealers in the market.

On 6 August 2014, after reviewing a number of bids received via the BWIC, Storm agreed to sell the Direct Claim for \$130m to a third party. The sale subsequently completed on 22 August 2014.

Following the sale, Storm's total claims against the remaining US affiliates is \$336m.

Inter-company debtors – UK loans

As previously advised, Storm provided a loan to a Lehman Group company which was used to originate mortgage loans (the "Mortgage Assets"). These Mortgage Assets were pledged as security against the loan. The Mortgage Assets are being held and run-off within the Administration using a servicing platform, Acenden Limited (formerly known as Capstone Mortgage Services Limited) ("Acenden") of which Storm is the majority owner.

Storm has continued to monitor closely the performance of Acenden in servicing the underlying loans. Acenden has continued to perform in line with expectations over the Period. Storm has also provided strategic support to Acenden's management team which has assisted in attracting third party servicing business thus adding value to Storm's holding in Acenden.

During the Period, the Administrators have received loan interest and principal sums totalling £1.6m.

Other assets

In line with its five year hold strategy for Acenden, Storm has now commenced, and is close to concluding, a sale process which is expected to be finalised by the end of 2014.

Claims agreement

In addition to the pension deficit claim reserve of £119m referred to below, Storm has received 14 claims from unsecured creditors, mainly Lehman affiliates, totalling £3.2bn. The two largest agreed claims are from Lehman Brothers Bankhaus (“Bankhaus”) and Mable, totalling £1.8bn and £366m respectively. Eight other claims have been agreed and three claims have been withdrawn. The Administrators continue to adjudicate the remaining complex claim which has been reserved for at its submitted value of £208m.

Pensions

As reported previously, it was necessary to retain a reserve against possible liability to the Lehman Brothers Pension Scheme under a Financial Support Direction (“FSD”). Following a settlement agreement with the pension scheme trustees and all other potential FSD targets which became effective on 18 August 2014, the Company no longer has a potential liability to the pension scheme and accordingly it has been possible to release the £119m which the Administrators had reserved for this purpose.

The Company has not contributed to the cost of funding pension benefits under the settlement, which is being discharged by other Lehman companies.

Taxation

All Corporation Tax returns up to the year ended 22 September 2011 have been agreed by HM Revenue & Customs (“HMRC”). The Corporation Tax return for the year ended 22 September 2012 has been submitted and shows no tax payable, but has not yet been agreed by HMRC. The Corporation Tax return for the period ended 22 September 2013 has been drafted and shows no tax payable and significant losses available to shelter future trading income. This return will be submitted to HMRC shortly.

To date, Storm has received net repayments of £22m relating to prior year tax and group relief, including repayments totalling £4.7m in the Period.

With regard to Value Added Tax (“VAT”), approximately £2m has been repaid to Storm for all of the post-insolvency periods to May 2014, including £0.4m in the period.

Future strategy

The Administrators will continue to:

- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with a view to future sales;
- Progress the sale of Acenden;
- Adjudicate any remaining claims received and yet to be agreed from unsecured creditors; and
- When appropriate, make further interim distributions.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8210 of 2008.
<i>Full name:</i>	Storm Funding Limited
<i>Trading name:</i>	Storm Funding Limited
<i>Registered number:</i>	2682306
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ.
<i>Date of the Administration appointment:</i>	23 September 2008
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT.
<i>Appointer's name and address:</i>	The directors of the Company, whose address at appointment was 25 Bank Street, London, E14 5LE.
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for Storm's creditors as a whole than would be likely if Storm were wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) of Schedule B1 of the Insolvency Act 1986, 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 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 2016.
<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>	<p>On 25 September 2013, the Administrators declared a first interim dividend of 10.4 pence in the pound.</p> <p>On 11 October 2013, the Administrators declared a second interim dividend of 7.0 pence in the pound.</p> <p>On 8 May 2014, the Administrators declared a third interim dividend of 10.0 pence in the pound.</p> <p>On 10 September 2014, the Administrators declared a fourth interim dividend of 4.6 pence in the pound.</p> <p>The Administrators are currently unable to estimate the quantum or timing of further distributions.</p>
<i>Estimated values of the prescribed part and Storm's net property:</i>	In the absence of qualifying floating charges, The Insolvency Act 1986 (Prescribed Part) Order 2003 does not apply to these proceedings.
<i>Whether and why the Administrators intend to apply to Court under Section 176A(5) of the Insolvency Act 1986:</i>	Not applicable
<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 the proceedings are the main proceedings.

Section 4 Financial information

Administrators' remuneration

The manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109.

In accordance with the Proposals, as a Creditors' Committee was not formed, it is for creditors to agree the level of the Administrators' remuneration and Category 2 disbursements.

In the Period, £2.4m (VAT inclusive) representing the Administrators' remuneration based on time costs incurred in the period from 1 January 2014 to 30 June 2014 has been drawn.

This brings the total amount of Administrators' remuneration drawn to date to £17.7m (VAT inclusive).

Additional analysis of Administrators' remuneration

The table below provides an analysis of the total hours and cost by grade in respect of the period 1 January 2014 to 30 June 2014:

Grade	Hours	Costs (£'000)
Partner	75	56
Director	961	650
Senior Manager	186	99
Manager	1,377	596
Senior Associate	1,440	408
Associate	932	210
Total	4,971	2,019

The following table provides a further analysis of the total hours and costs incurred by activity:

Category	Hours	Costs (£'000)
Accounting and Treasury	224	67
Central Services	42	10
Creditor Claims	106	37
Loan Portfolio Management	3,413	1,421
Pensions	79	38
Realisations of Other Assets	615	244
Statutory and Compliance	103	34
Strategy and Planning	197	67
Tax and VAT	192	101
Total	4,971	2,019

In addition, Storm has incurred time costs in relation to the recovery of Corporation Tax and VAT. Time costs are initially borne on a group level basis for the Lehman Group of companies and apportioned to individual estates based on the level of individual recovery. The share of Administrators' time costs allocated to Storm will fluctuate when any entity within the Group makes a recovery or a payment. A full breakdown of these time costs will be submitted once all entities within the Group have collected all expected recoveries.

Receipts and payments account

An account of the receipts and payments in the Administration for the Period and the cumulative total since commencement of the Administration is set out in Section 5 of this report.

The significant receipts in the Period are:

- £281.5m in respect of distributions received from intercompany debtors, including the sale proceeds of the Direct Claim;
- £22.0m in respect of trust asset recoveries;
- £4.7m in respect of Corporate Tax repayments; and

-
- £1.6m in respect of principal and interest on mortgage assets.

The significant payments in the Period are:

- £319.0m in respect of interim dividends;
and
- £2.4m (inclusive of VAT) in respect of Administrators' remuneration.

Total cash held as at 22 September 2014 was £108.1m (GBP equivalent).

Section 5 Receipts and payments account

	As at 22 September 2014			As at 22 September 2014	Movements from 22 March 2014 to 22 September 2014	As at 22 March 2014 (GBP equivalent) RESTATE at 22 September 2014	As at 22 March 2014 (GBP equivalent)
	GBP (£)	EUR (€)	USD (\$)	TOTAL GBP equivalent £	September 2014 (GBP equivalent) £	exchange rate	£
RECEIPTS	000's	000's	000's	000's	000's	000's	000's
Principal and interest on mortgage assets	76,059	51,190	-	116,259	1,567	114,692	117,266
Interest	1,469	400	72	1,827	228	1,599	1,619
Corporation Tax repayment	21,944	-	-	21,944	4,675	17,269	17,269
VAT repayment	2,000	-	-	2,000	420	1,580	1,580
Coupon receipt	-	1,513	-	1,188	-	1,188	1,264
Intercompany debtors	159,901	-	433,878	425,608	281,448	144,160	142,724
PML and SPML legal costs recovered	172	-	-	172	23	149	149
Foreign currency conversions	552,823	-	-	552,823	134,877	417,946	417,947
Trust asset recoveries	21,415	35,651	325,593	248,805	21,995	226,810	226,366
Receipts Grand Totals	835,783	88,754	759,543	1,370,626	445,233	925,393	926,184
PAYMENTS							
Building and occupancy cost	639	-	-	639	1	638	638
Payroll and employee costs	5,913	-	-	5,913	12	5,901	5,901
Capstone share repurchase	50	-	-	50	-	50	50
Asset Management Company expenses	80	-	-	80	-	80	80
Legal fees	3,679	-	5	3,682	172	3,510	3,510
Insurance fees	7	-	-	7	-	7	7
Administrators' remuneration	17,681	-	-	17,681	2,423	15,258	15,258
Administrators' disbursements	34	-	-	34	13	21	21
Other professional fees	488	-	-	488	3	485	485
Foreign currency conversions	-	88,462	756,692	532,868	136,756	396,112	396,905
Trust Asset fees	133	267	2,442	1,838	165	1,673	1,671
Distributions to unsecured creditors	699,275	-	-	699,275	319,044	380,231	380,231
Payments Grand Totals	727,979	88,729	759,139	1,262,555	458,589	803,966	804,757
NET POSITION	107,804	25	404	108,071	(13,356)	121,427	121,427
CASH BALANCES							
HSBC	1,007	25	404	1,274			
Money markets	106,797	-	-	106,797			
Total Cash	107,804	25	404	108,071			

Exchange rate as at 22 March 2014

EURO €1 : GBP 0.8356
USD \$1 : GBP 0.6063

Exchange rate as at 22 September 2014

EURO €1 : GBP 0.7853
USD \$1 : GBP 0.6124

Amounts include VAT where applicable



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