
Storm Funding Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2014 to 22 March 2015

21 April 2015

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the thirteenth 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' twelve 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 March 2015 (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 fourth interim dividend of 4.6 pence in the pound 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.

Further realisations will enable a fifth interim distribution to be made to unsecured creditors. A deadline to lodge proof of debt forms for inclusion in this fifth interim distribution was set for 2 March 2015 with the distribution to be paid no later than 2 May 2015.

The Administrators are currently unable to provide an estimate of any further dividends as this is dependent upon the agreement of the remaining unagreed claim 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 Schwarzmenn

Joint Administrator
Storm Funding Limited

DY Schwarzmenn, 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 Schwarzmenn, 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 Schwarzmenn, 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 £0.6m. The aggregate recovery, including funds from corporate actions and interest, is £266.0m (GBP equivalent at 22 March 2015 exchange rates). The majority of the securities have now been realised, and no further material recoveries are anticipated.

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.

To date, Storm has received distributions of approximately £158m, representing total recovery of 100 pence in the pound. Further distributions of statutory interest are anticipated.

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. As reported in the previous report, Storm sold its largest US affiliate claim to a third party.

Following the exchange of contracts for the sale of Acenden Limited (formerly known as Capstone Mortgage Services Limited) ("Acenden"), Storm took assignment from Acenden of an additional US affiliate claim, with a nominal value of \$81m.

As a consequence of the claim sale and this assignment, Storm's claims against the remaining US affiliates total \$416m.

Storm has received interim dividends from the US affiliates in aggregate up to the end of the Period totalling \$319m, with \$13m received in the Period.

Subsequent to the Period, Storm received further distributions from the US affiliates totalling \$11m.

In addition, on 3 October 2014 a settlement agreement was executed between Storm and certain Lehman US entities not included in the 2011 Joint Chapter 11 Plan. A one-off settlement totalling \$2m was received on 6 October 2014.

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 Acenden.

During the Period Storm has continued to closely monitor the performance of Acenden in servicing the underlying loans. Acenden has continued to perform in line with expectations over the Period.

To date, the Administrators have received loan interest and principal sums totalling £104.9m, of which £0.7m has been received in the period.

In addition, Storm had made loans to two other Lehman mortgage servicers, Southern Pacific Mortgages Limited and Preferred Mortgages Limited, of £50.1m and £16.8m respectively. Storm had agreed not to pursue these sums to allow these companies to trade profitably and restore their balance sheets. Now this objective has been met the Administrators anticipate recovering these loans during 2015.

Acenden sale

In 2010 Storm purchased Acenden from another Lehman Group company (the “Vendor”). An element of the purchase price was deferred consideration, and is due to the Vendor on Storm realising value from its shareholding in Acenden.

Storm has now exchanged contracts for the sale of its shareholding in Acenden, following a competitive sale process. The sale is conditional on regulatory approval which is expected by the second quarter of 2015.

Under the terms of the sale, Storm is unable to disclose details of the final consideration agreed with the buyer for its shareholding in Acenden.

To date Storm has received dividends from Acenden, net of the deferred consideration due to the Vendor, of £15.8m, of which £5.1m was received in the Period.

A further £13.6m, net of the deferred consideration due to the Vendor, is expected following the sale completion.

Claims agreement

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.

Taxation

All Corporation Tax returns up to the year ended 22 September 2012 have been agreed by HM Revenue & Customs (“HMRC”). The Corporation Tax return for the year ended 22 September 2013 has been drafted. This shows no tax payable and significant losses available to shelter future trading income.

This return will be submitted to HMRC imminently.

To date, Storm has received net repayments of £23.3m relating to prior year tax and group relief. Further payments may be received for year ended 22 September 2013 depending on the group loss profile.

With regards to Value Added Tax (“VAT”), £2.3m has been repaid to Storm for all of the post-insolvency periods to August 2014.

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;
- Adjudicate the remaining complex claim and any further claims received 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 Schwarzmenn, 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>	Dividends paid to date total 32 pence in the pound. A fifth distribution will be declared by 2 May 2015.
<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.

At a meeting held by correspondence on 20 September 2010, those creditors who voted, unanimously approved a resolution authorising the Administrators to draw remuneration on the basis of their time costs, together with Category 2 disbursements and VAT from 1 July 2010 onwards from time to time.

In accordance with the resolution, the Administrators can draw remuneration 21 days after circulating details to creditors.

On 13 March 2015, the fee analysis for the period from 1 July 2014 to 31 December 2014 was circulated to creditors.

Shortly after the Period, £1.3m (VAT inclusive) representing the Administrators' remuneration based on time costs incurred in the period from 1 July 2014 to 31 December 2014 has been drawn. A further £0.9m (VAT inclusive) has also been drawn in respect of time costs that were previously unbilled, for work relating to the Vendor Due Diligence exercise undertaken as part of the Acenden sale process.

This brings the total amount of Administrators' remuneration drawn to date to £19.9m (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 July 2014 to 31 December 2014:

Grade	Hours	Costs (£'000)
Partner	58	48
Director	824	566
Senior Manager	250	134
Manager	127	54
Senior Associate	687	184
Associate	466	105
Total	2,412	1,091

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

Category	Hours	Costs (£'000)
Accounting and Treasury	192	54
Central Services	35	10
Creditor Claims	40	13
Loan Portfolio Management	1,552	763
Realisations of Other Assets	167	58
Statutory and Compliance	87	24
Strategy and Planning	140	49
Tax and VAT	199	120
Total	2,412	1,091

As previously reported, Storm incurred time costs in relation to the recovery of Corporation Tax from the date of administration to 30 September 2011. These time costs were initially borne on a Group level basis for the Lehman Group of companies and apportioned to and paid by individual estates based on the level of individual recovery.

All entities within the Group have now collected all expected recoveries, and a full and final breakdown of the time costs is now available. Details of Storm's

allocation of these time costs are outlined in the table below:

Grade	Hours	Costs (£'000)
Partner	26	25
Director	24	21
Senior Manager	29	16
Manager	59	23
Senior Associate	106	25
Associate	5	1
Support	1	0
Total	250	111

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:

- £10.0m in respect of distributions received from intercompany debtors;
- £5.1m in proceeds from the sale of Acenden;
- £1.3m in respect of group relief tax repayments;
- £0.7m in principal and interest on mortgage assets; and
- £0.6m in respect of trust asset recoveries.

The significant payments in the Period are:

- £0.5m in respect of legal fees.

Total cash held as at 22 March 2015 was £125.2m (GBP equivalent).

Section 5 Receipts and payments account

	As at 22 March 2015			As at 22 March 2015 TOTAL GBP equivalent	Movements from 22 September 2014 to 22 March 2015 (GBP equivalent)	As at 22 September 2014 (GBP equivalent) RESTATED at 22 March 2015 exchange rate	As at 22 September 2014 (GBP equivalent)
	GBP (£)	EUR (€)	USD (\$)	£	£	£	£
RECEIPTS	000's	000's	000's	000's	000's	000's	000's
Principal and interest on mortgage assets	67,897	51,190	-	104,907	716	104,191	107,380
Acenden net proceeds	15,775	-	-	15,775	5,068	10,707	10,707
Interest	1,645	400	76	1,985	178	1,807	1,827
Corporation Tax repayment	23,296	-	-	23,296	1,352	21,944	21,944
VAT repayment	2,256	-	-	2,256	256	2,000	2,000
Coupon receipt	-	1,513	-	1,094	-	1,094	1,188
Intercompany debtors	157,455	-	448,759	458,124	9,971	448,153	423,162
PML and SPML legal costs recovered	172	-	-	172	-	172	172
Foreign currency conversions	562,636	-	-	562,636	9,814	552,822	552,822
Trust asset recoveries	21,919	35,651	325,732	265,935	597	265,338	248,805
Receipts Grand Totals	853,051	88,754	774,567	1,436,180	27,952	1,408,228	1,370,007
PAYMENTS							
Building and occupancy cost	655	-	-	655	16	639	639
Payroll and employee costs	5,307	-	-	5,307	13	5,294	5,294
Capstone share repurchase	50	-	-	50	-	50	50
Asset Management Company expenses	80	-	-	80	-	80	80
Legal fees	4,161	-	5	4,164	481	3,683	3,682
Insurance fees	7	-	-	7	-	7	7
Administrators' remuneration	17,681	-	-	17,681	-	17,681	17,681
Administrators' disbursements	34	-	-	34	-	34	34
Other professional fees	490	-	-	490	2	488	488
Foreign currency conversions	-	88,462	772,110	581,272	10,330	570,942	532,868
Trust Asset fees	137	267	2,442	1,966	4	1,962	1,838
Distributions to unsecured creditors	699,275	-	-	699,275	-	699,275	699,275
Payments Grand Totals	727,877	88,729	774,557	1,310,981	10,846	1,300,135	1,261,936
NET POSITION	125,174	25	10	125,199	17,106	108,093	108,071
CASH BALANCES							
HSBC	1,277	25	10	1,302			
Money markets	123,897	-	-	123,897			
Total Cash	125,174	25	10	125,199			
Exchange rate as at 22 September 2014							
EURO €1 : GBP	0.7853						
USD \$1 : GBP	0.6124						
Exchange rate as at 22 March 2015							
EURO €1 : GBP	0.7230						
USD \$1 : GBP	0.6700						

* A reclassification exercise has been undertaken to separate the net proceeds from Acenden into a new category, "Acenden net proceeds". These receipts were previously categorised within "Principal and interest on mortgage assets" and "Intercompany debtors". As such the "As at 22 September 2014 (GBP equivalent)" RESTATED at 22 March 2015 exchange rate" figures for these categories have been adjusted from previous Receipt & Payment statements issued by Storm Funding Limited.

Amounts include VAT where applicable



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