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# ***Storm Funding Limited – In Administration***

Joint Administrators' progress  
report for the period 23 September  
2010 to 22 March 2011

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20 April 2011

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

## ***Introduction***

This is the fifth 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. Creditors should also have received the Administrators' first, second, third and fourth progress reports dated 21 April 2009, 22 October 2009, 20 April 2010 and 21 October 2010 respectively.

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 2011.

## ***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 the Company'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***

The significant uncertainties which have previously been reported on remain. As a result it is not possible for the Administrators to provide a reliable estimate of the likely dividend to ordinary unsecured creditors.

In respect of these uncertainties, the Pensions Regulator listed Storm as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

However, the Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that an FSD should not be issued against Storm. As the FSD legal process has not yet been completed the Administrators are not certain at this stage that Storm will not have liability under an FSD.

The Administrators will continue to manage the Administration in accordance with the Proposals approved by creditors.

The Administrators would encourage any creditor that has not submitted its claim to do so by completing and returning the enclosed statement of claim form.

## ***Administrators' remuneration***

As there is no Creditors' Committee, the Administrators have sought the approval of the general body of creditors to draw remuneration in respect of costs incurred in this Administration.

## ***Extension of the Administration***

On the application of the Administrators the High Court made a further Order extending the period of the Administration to 30 November 2011.

## ***Future reports***

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

Signed:



D Y Schwarzmann  
Joint Administrator  
Storm Funding Limited

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

### ***Business activities***

Storm is a wholly-owned subsidiary of Mable Commercial Funding Limited.

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

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

### ***Progress to date***

#### **Repo'd securities**

As stated in the previous progress reports, the majority of Storm's mortgage-backed securities were repo'd to Lehman Brothers Bankhaus AG ("Bankhaus"). On 15 September 2008 Bankhaus became the subject of a moratorium to protect creditors, imposed by the German Financial Supervisory Authority.

The rights and obligations of Storm and Bankhaus in respect of these repos are purportedly defined in a draft General Master Repurchase Agreement dated 15 August 2008.

Storm and its expert advisers are continuing to work to determine the most appropriate method of valuing the underlying securities in order to substantiate any claim between the parties. This is a complex task and we continue to liaise with Bankhaus (and other Lehman estates) in this respect.

Storm also entered into a repo/reverse repo with Lehman Brothers International (Europe) ("LBIE"). Both parties are in discussions to agree asset populations in advance of finalising the valuation methodology.

#### **Securities in Lehman depository accounts**

As a Lehman group entity, all securities in Storm's inventory were held in central Lehman Brothers' depository ("depot") accounts. A key task will be proving the ownership of these securities.

As previously reported, two claims have been submitted already in respect of depot accounts:

- A Trust Asset Claim against LBIE with a total value of US\$519m and discussions with LBIE in this respect are on-going; and
- A Trust Asset Claim against Lehman Brothers Inc. with a value of \$243m. Storm received notice that this claim was denied and was requested to provide additional supporting information in advance of the determination deadline. Storm has secured a further extension until 30 June 2011 to appeal against the determination and it is expected that Storm will be able to finalise its position by this deadline.

#### **Non-affiliate creditors**

Storm has also received enquiries from non-Lehman related entities claiming monies for unpaid purchase of securities. Whilst the Administrators are not yet formally adjudicating claims, we are working closely with those involved to determine the potential validity of such claims.

#### **Inter-company debtors**

The Administrators continue to gather information to evidence Storm's claims against inter-company debtors. Claims have also been lodged against other insolvent Lehman entities in advance of any bar-dates imposed for the submission of claims, which has involved extensive communication with affiliates.

#### **Inter-company debtors - Dutch debtor**

As stated in previous progress reports, further realisations from the controlled divestment of the assets of a Dutch debtor are dependent on the success of that company in recovering assets from other parties.

#### **Inter-company debtors - UK loans**

As stated in the previous progress report dated 21 October 2010, 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 Lehman

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owned servicing platform, Acenden Limited (“Acenden”) (formerly known as Capstone Mortgage Services Limited). In addition to the Mortgage Assets, Storm also has a number of other inter-company receivables, the value of which are dependent upon Acenden continuing to service the underlying mortgage loans.

As previously advised, to ensure that the value of these inter-company receivables is preserved and the value of the Mortgage Assets maximised, the Administrators have supported a restructuring initiative whereby Storm is the now the major shareholder in Acenden.

To complement the restructuring, the Administrators are in the final stages of incorporating an asset management company of which Storm will be a corporate partner. The asset management company will provide strategic asset-management advice to Storm, Acenden and certain other Lehman entities that hold mortgage assets.

Between 23 September 2010 and 22 March 2011, the Administrators have collected loan interest and principal sums totalling £11.7m in relation to the Mortgage Assets. This includes proceeds from the sale of a selected small portfolio of loans.

### **Taxation**

Storm has entered into a group relief agreement with other PwC controlled Lehman entities. HMRC has approved the group tax position up to 2007 and £2.4m has been repaid to date.

### ***Future strategy***

The Administrators will continue to:

- Pursue claims against other members of the Lehman Group and monitor the strategy with regards to the declaration of interim distributions;
- Seek the return of Storm’s assets held by other Lehman entities; and
- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with the view to future sales.

## 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, United Kingdom.
<i>Company directors:</i>	A Attia (resigned 12/01/09), D Gibb (resigned 17/07/09), PEJ Hansell (resigned 23/10/08), IM Jameson (resigned 17/07/09), AJ Rush (resigned 28/10/08) and PA Sherwood (resigned 31/10/08).
<i>Company secretary:</i>	P Dave (resigned 25/01/10), M Smith (resigned 25/01/10) and ESE Upton (resigned 25/01/10).
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company.
<i>Date of the Administration appointment:</i>	23 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmamm, MJA Jervis, AV Lomas, SA Pearson and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
<i>Appointer's name and address:</i>	The directors of the Company, whose address at appointment was 25 Bank Street, London, United Kingdom, 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) 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 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 Storm's net property:</i>	There is no prescribed part in this matter.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</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.

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## ***Section 4 Financial information***

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

Total cash held as at 22 March 2011 was £70.9m.

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

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. Creditors have previously been provided with a SIP 9 analysis supporting remuneration of £4.3m including VAT for the period up to 31 December 2009.

Creditors were also provided with a SIP 9 analysis for the period 1 January 2010 to 30 June 2010 and remuneration of £1.76m including VAT has been approved by creditors and drawn. This represents 3,888 hours at an average hourly rate of £451 including VAT.

A SIP 9 time cost analysis for the period from 1 July 2010 to 31 December 2010 will be issued to creditors shortly.

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

An account of the receipts and payments in the Administration for the six months to 23 March 2011, and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

Significant receipts in the period covered by this report are:

- £11.7m in respect of principal and interest; and
- £2.4m in respect of a corporation tax refund.

Significant payments in the period covered by this report are:

- Payroll and employee costs of £2.2m;
- Office holders' remuneration of £1.8m including VAT, drawn in respect of the period from 1 January 2010 to 30 June 2010; and
- Legal fees of £0.3m.

## Section 5 Receipts and payments

	As at 22 March 2011		As at 22 March 2011 TOTAL GBP equivalent	Movements from 23 September 2010 to 22 March 2011 (GBP equivalent)	As at 22 September 2010 (GBP equivalent) RESTATED at 22 March 2011 exchange rate	As at 22 September 2010 (GBP equivalent)
	GBP (£)	EUR (€)	£	£	£	£
<b>RECEIPT</b>	<b>000</b>	<b>000</b>	<b>000</b>	<b>000</b>	<b>000</b>	<b>000</b>
Principal and interest	43,760	43,628	81,699	11,712	69,987	69,328
Corporation Tax repayment	2,418	-	2,418	2,418	-	-
Coupon receipt	-	1,513	1,315	-	1,315	1,292
<b>Receipts Grand Totals</b>	<b>46,178</b>	<b>45,141</b>	<b>85,432</b>	<b>14,130</b>	<b>71,302</b>	<b>70,620</b>
<b>PAYMENT</b>						
Building and occupancy cost	532	-	532	-	532	532
Payroll and employee costs	5,744	-	5,744	2,176	3,568	3,568
Capstone share repurchase	50	-	50	-	50	50
Asset Management Company expenses	80	-	80	-	80	80
Legal fees	1,899	-	1,899	252	1,647	1,647
Office holders' remuneration	6,094	-	6,094	1,755	4,339	4,339
Office holders' disbursements	6	-	6	-	6	6
Other professional fees	104	-	104	9	95	95
<b>Payments Grand Totals</b>	<b>14,509</b>	<b>-</b>	<b>14,509</b>	<b>4,192</b>	<b>10,317</b>	<b>10,317</b>
<b>NET POSITION</b>	<b>31,669</b>	<b>45,141</b>	<b>70,923</b>	<b>9,938</b>	<b>60,985</b>	<b>60,303</b>
<b>CASH BALANCES</b>						
HSBC	667	112	764			
Money markets	31,002	45,029	70,159			
<b>Total Cash</b>	<b>31,669</b>	<b>45,141</b>	<b>70,923</b>			

Exchange rate as at 22 September 2010:

EURO €1 : GBP 0.8545

Exchange rate as at 22 March 2011:

EURO €1 : GBP 0.8696

Amounts include VAT where applicable



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