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# *Storm Funding Limited* *– In Administration*

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

21 October 2011

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

## ***Introduction***

This is the sixth 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' previous progress reports.

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 2011.

## ***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 Group.

Storm utilised employees from Lehman Brothers Limited ("LBL") 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 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.

Following the update provided in the last progress report regarding the Lehman Brothers Pension Scheme, the Administrators have made an application to the Upper Tribunal seeking an order that the stay of proceedings should be lifted and that the Upper Tribunal should determine that a Financial Support Direction ("FSD") cannot be imposed against Storm.

The timescale for the determination of the application by the Upper Tribunal is not certain at present, but it is likely that the process of concluding whether or not Storm has any liability under a FSD will take some time to complete.

This issue may have a material impact on the outcome for 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. To date the creditors have approved remuneration of £7.1m including VAT.

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

The current extension of the Administration will come to an end on 30 November 2011. An application will shortly be made to the High Court to extend the Administration for a further period.

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### ***Future reports***

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

Signed:

A handwritten signature in black ink, appearing to be 'D Y Schwarzmann', with a long horizontal flourish extending to the right.

D Y Schwarzmann  
Joint Administrator  
Storm Funding Limited

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

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

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

As stated in 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 imposed by the German Financial Supervisory Authority to protect creditors.

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

Storm and its expert advisers are continuing to work towards determining the most appropriate method of valuing the underlying assets. This is a complex task and requires input from Bankhaus and other Lehman Group insolvent entities.

Storm also has a repo/reverse repo arrangement with Lehman Brothers International (Europe) ("LBIE"). Both parties are working closely in order to agree the asset population. Once agreed, Storm and LBIE should look to agree an appropriate valuation methodology.

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

The Administrators continue to identify the type, number and location of each security held by Storm in order to enable them to evidence Storm's claim as a creditor of other Lehman Group insolvent entities.

Storm has submitted a trust asset claim against LBIE for US\$519m. Whilst the timing and quantum of the return of any assets in relation to this claim remains uncertain, we are in discussions with LBIE to ensure the trust asset claim is appropriately substantiated.

Storm submitted a trust asset claim against Lehman Brothers Inc. with a value of US\$243m. This claim has been investigated and it has been decided that it will be made against another Lehman Group insolvent entity.

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

All of the creditors identified on the Statement of Affairs were inter-company creditors. Storm has since received an enquiry from a non-Lehman Group entity claiming monies for unpaid securities. Whilst the Administrators have not yet received a formal claim from the non-affiliate creditor, Storm is working with the parties involved to determine the potential quantum and validity of any claim.

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

The Administrators continue to gather information to evidence Storm's claims against inter-company debtors. Storm has lodged claims totalling US\$17.8bn against Lehman Group entities in advance of the imposition of any bar dates.

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

Since our previous progress report, the Administrators have realised a further €2.5m from the controlled divestment of the assets of a Dutch debtor, bringing the total realisations in relation to this issue to €45m. Further realisations are dependent on the success of the Dutch debtor in recovering assets from other parties.

#### **Inter-company debtors – US affiliates**

In conjunction with other UK affiliates, the Administrators have reached agreement in principle with Lehman Brothers Holdings Inc. ("LBHI") and certain other US debtors. This comprehensive inter-company claims settlement will involve Storm and other UK affiliates committing their support to the third amended plan of reorganisation filed by LBHI and its US debtor affiliates in September 2011.

The quantum and timing of any dividend remains uncertain.

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## **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) of which Storm is the majority owner.

As previously advised, the Administrators are continuing with the incorporation of an asset management company, of which Storm will be a corporate partner.

Between 23 March 2011 and 22 September 2011, the Administrators have received loan interest and principal sums totalling £3.8m in relation to the Mortgage Assets.

## **Taxation**

The Administrators have agreed with HM Revenue and Customs the corporation tax affairs of Storm for accounting periods up to the date of Administration. After deductions pursuant to the group relief agreement, approximately £2.5m has been repaid to Storm to date and an additional £5.0m is expected later this year.

## ***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 Group 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 Schwarzmann, MJA Jervis, AV Lomas, SA Pearson and DA Howell, of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom.
<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***

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. Creditors have previously been provided with time cost analyses and narrative for the period up to 30 June 2010 and remuneration of £6.1m including VAT has been approved by creditors and drawn.

A time cost analysis for the period from 1 July 2010 to 31 December 2010 totalling £1.2m has been issued to creditors. It has been agreed that 75% of these time costs (£1.0m including VAT) can be drawn as remuneration now, with the balance to be paid subject to further information being provided in response to a creditor's request. The creditor's agreement and the drawdown of these fees occurred after the date of the attached receipts and payments account.

Total remuneration drawn to date is £7.1m including VAT. This represents 15,303 hours at an average hourly rate of £464, including VAT.

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

An account of the receipts and payments in the Administration for the six months to 22 September 2011 and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

The significant receipt in the period covered by this report is £6.2m in respect of principal and interest.

Significant payments in the period covered by this report are:

- Payroll and employee costs of £0.8m; and
- Legal fees of £0.5m.

Total cash held as at 22 September 2011 was £76.2m.



## Section 5 Receipts and payments

	As at 22 September 2011		As at 22 September 2011	Movements from 23 March 2011 to 22 September 2011	As at 22 March 2011 (GBP equivalent) RESTATED	As at 22 March 2011 (GBP equivalent)
	GBP (£000s)	EUR (€000s)	TOTAL GBP equivalent £000s	(GBP equivalent) £000s	at 22 September exchange rate £000s	(GBP equivalent) £000s
<b>RECEIPTS</b>						
Principal and interest	47,535	46,364	88,229	6,177	82,052	81,699
Corporation Tax repayments	2,460	-	2,460	42	2,418	2,418
Coupon receipts	-	1,513	1,328	-	1,328	1,315
<b>Receipts Grand Totals</b>	<b>49,995</b>	<b>47,877</b>	<b>92,017</b>	<b>6,219</b>	<b>85,798</b>	<b>85,432</b>
<b>PAYMENTS</b>						
Building and occupancy costs	532	-	532	-	532	532
Payroll and employee costs	6,499	-	6,499	755	5,744	5,744
Capstone share repurchase	50	-	50	-	50	50
Asset Management Company expenses	80	-	80	-	80	80
Legal fees	2,429	-	2,429	530	1,899	1,899
Insurance	7	-	7	-	7	7
Office holders' remuneration	6,094	-	6,094	-	6,094	6,094
Office holders' disbursements	6	-	6	-	6	6
Other professional fees	99	-	99	2	97	97
<b>Payments Grand Totals</b>	<b>15,796</b>	<b>-</b>	<b>15,796</b>	<b>1,287</b>	<b>14,509</b>	<b>14,509</b>
<b>NET POSITION</b>	<b>34,199</b>	<b>47,877</b>	<b>76,221</b>	<b>4,932</b>	<b>71,289</b>	<b>70,923</b>
<b>CASH BALANCES</b>						
HSBC	2,306	101	2,395			
Money markets	31,893	47,776	73,826			
<b>Total Cash</b>	<b>34,199</b>	<b>47,877</b>	<b>76,221</b>			

Exchange rate as at 22 March 2011:

EURO €1 : GBP 0.8696

Exchange rate as at 22 September 2011:

EURO €1 : GBP 0.8777

Amounts include VAT where applicable



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