
Storm Funding Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2011 to 22 March 2012

20 April 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the seventh 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' six 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 March 2012 ("the Period").

Business activities

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

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 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.

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.

Extension of the Administration and proposal for making distributions

The previous extension to the Administration came to an end on 30 November 2011. An application was therefore made to the High Court to further extend the Administration and by an Order dated 23 November 2011 the Administration was extended by a further five years to 30 November 2016.

The Administrators are currently of the view that it is in the best interests of Storm's creditors as a whole for distributions to unsecured creditors to be made through the Administration. It is therefore the intention of the Administrators to commence the process of making an application to the High Court to convert to a distributing Administration in the short term.

Future reports

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

Signed:



D Y Schwarzmann
Joint Administrator
Storm Funding Limited

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 previously submitted a gross claim into Bankhaus to preserve its rights. However, the parties have now agreed that any claim between Storm and Bankhaus in respect of the repo arrangement should be submitted on a net basis. As such, Storm has received a net claim from Bankhaus for £2.6bn. Storm and its expert advisers are now reviewing this claim, particularly with regard to the valuation of the securities.

Storm also has a repo/reverse repo arrangement with Lehman Brothers International (Europe) ("LBIE"). The asset population in this respect has now been agreed, and Storm and LBIE are now working towards agreeing an appropriate valuation methodology.

Securities held in Lehman depository accounts

The Administrators have agreed the population of Storm's securities held in Lehman depository accounts. The Company will shortly lodge an affiliate asset claim against LBIE which will replace the trust asset claim for US\$519m mentioned in previous reports. Whilst the timing of the return of these assets and any subsequent realisations remains uncertain, we are in regular discussions with LBIE to progress this matter.

Non-affiliate creditors

Storm previously received a draft claim from a non-affiliate creditor for monies for a failed repo relationship. The Administrators have now received this claim in final form and are working with the parties involved to determine the validity and quantum of any claim.

Inter-company debtors – Dutch debtor

Since our previous progress report, the Administrators have realised a final €3m from the controlled divestment of the assets of a Dutch debtor, bringing the total realisations in relation to this matter to €50m.

Inter-company debtors – US affiliates

In conjunction with other UK affiliates, Storm reached agreement with Lehman Brothers Holdings Inc. ("LBHI") and its US debtor affiliates in Chapter 11 to settle all claims between them. The agreement was executed on 24 October 2011 by LBHI and certain US debtor affiliates and by Storm and certain UK affiliates. The settlement agreement was disclosed within the plan supplement filed by the Chapter 11 entities on 25 October 2011, which formed part of the plan confirmed by the US Bankruptcy Court on 6 December 2011.

The settlement agreement became fully binding and operational when the plan became effective on 6 March 2012. Storm's total claim against the various US debtors totalled \$1.1bn and the US affiliates anticipate making their first distribution to Storm of \$65m in April 2012.

Other recoveries

Storm received €2.1m since the last progress report as a deferred purchase price as a result of the restructuring of an SPV formerly administered by the Lehman Group.

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.

The Administrators have completed the incorporation of an asset management company, of which Storm is a corporate partner.

Between 23 September 2011 and 22 March 2012, the Administrators have received loan interest and principal sums totalling £3.6m in relation to the Mortgage Assets.

Pensions

Following the update provided in the last progress report regarding the Lehman Brothers Pension Scheme, Storm is still at risk from this potential liability.

Storm (together with 36 other affected entities) applied to the Upper Tribunal seeking an Order that the Trustees' referral to the Upper Tribunal should be struck out on the grounds that it is now no longer possible for the Regulator to impose a Financial Support Direction ("FSD") against Storm. The Trustees and the Pensions Regulator opposed the strike-out application and the Hearing took place from 12 to 15 March 2012. Judgment was reserved and has not yet been handed down.

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, Storm has received £73k in the Period. Approximately £2.5m has been repaid to Storm to date and significant further recoveries are expected in 2012.

Receipts of £750k in respect of recoverable VAT have been made in the Period, after deductions for costs.

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.
<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.
<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) 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 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>	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.

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.

As mentioned in our previous progress report, the creditors have been provided with time cost analyses and narrative for the period up to 31 December 2010 and remuneration of £7.1m including VAT has been approved by creditors and drawn. A further £0.3m in respect of the period from 1 July 2010 to 31 December 2010 has not yet been paid and is subject to further information being provided in response to a creditor's request.

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 2011 to 31 December 2011:

Grade	Hours	Costs (£'000)
Partner	102	84
Director	790	501
Senior Manager	1,229	585
Manager	763	294
Senior Associate	1,665	509
Associate	392	72
Total	4,941	2,045

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

Grade	Hours	Costs (£'000)
Loan Portfolio Management	1,091	595
Inter-company	627	239
Realisation of Assets	569	239
Strategy and Planning	590	261
Statutory and Compliance	571	211
Accounting and Treasury	582	173
Tax and VAT	251	147
Information Technology	323	80
Operations	250	68
Employee Issues	87	32
Total	4,941	2,045

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2012 and a cumulative total since commencement of the Administration, is set out in section 5 of this report.

The significant receipt in the Period is £8.0m in respect of principal and interest.

Significant payments in the Period are:

- Payroll and employee costs of £2.1m; and
- Office holders' remuneration of £1.0m.

Total cash held as at 22 March 2012 was £79.5m.

Section 5 Receipts and payments account

	As at 22 March 2012		As at 22 March 2012 TOTAL GBP equivalent £000s	Movements from 23 September 2011 to 22 March 2012 (GBP equivalent) £000s	As at 22 September 2011 (GBP equivalent) RESTATED at 22 March exchange rate £000s	As at 22 September 2011 (GBP equivalent) £000s
	GBP (£000s)	EUR (£000s)				
RECEIPTS						
Principal and interest	51,143	51,589	94,107	7,960	86,147	88,229
Corporation Tax repayments	2,533	-	2,533	73	2,460	2,460
VAT repayments	750	-	750	750	-	-
Coupon receipts	-	1,513	1,260	-	1,260	1,328
Inter estate transfers	44,324	-	44,324	44,324	-	-
Receipts Grand Totals	98,750	53,102	142,974	53,107	89,867	92,017
PAYMENTS						
Building and occupancy costs	532	-	532	-	532	532
Payroll and employee costs	8,615	-	8,615	2,116	6,499	6,499
Capstone share repurchase	50	-	50	-	50	50
Asset Management Company expenses	80	-	80	-	80	80
Legal fees	2,818	-	2,818	389	2,429	2,429
Insurance	7	-	7	-	7	7
Office holders' remuneration	7,109	-	7,109	1,015	6,094	6,094
Office holders' disbursements	6	-	6	-	6	6
Other professional fees	99	-	99	-	99	99
Inter estate transfers	-	53,077	44,204	44,204	-	-
Payments Grand Totals	19,316	53,077	63,520	47,724	15,796	15,796
NET POSITION	79,434	25	79,454	5,383	74,071	76,221
CASH BALANCES						
HSBC	2,742	25	2,762			
Money markets	76,692	-	76,692			
Total Cash	79,434	25	79,454			

Exchange rate as at 22 September 2011:

EURO €1 : GBP 0.8777

Exchange rate as at 22 March 2012:

EURO €1 : GBP 0.8328

Amounts include VAT where applicable



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