
Storm Funding Limited – In Administration

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

19 October 2012

Contents

<i>Section 1</i>	<i>Purpose of the Joint Administrators' progress report</i>	<i>1</i>
<i>Section 2</i>	<i>Joint Administrators' actions to date</i>	<i>2</i>
<i>Section 3</i>	<i>Statutory and other information</i>	<i>4</i>
<i>Section 4</i>	<i>Financial information</i>	<i>5</i>
<i>Section 5</i>	<i>Receipts and payments account</i>	<i>7</i>

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth 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' seven previous progress reports. If any creditor requires copies of these reports, please contact Peter Feltham 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 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 current extension will come to an end on 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 once more comfort has been achieved in relation to the significant uncertainty around the Pension issue.

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

Securities held in Lehman depository accounts

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) ("LBIE") for a face value of £784m; it should be noted the eventual recoverable value will be significantly below this. 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.

Repo'd securities

As stated in the last progress report, Storm has received a net claim from Lehman Brothers Bankhaus AG for £2.6bn. Storm and its advisers are continuing to review this claim, particularly with regard to the valuation of the related securities.

Storm also has a repo/reverse repo arrangement with LBIE. The asset population in this respect has now been agreed and a contingent claim has been submitted as part of Storm's unsecured claim against LBIE. Both parties are working towards agreeing an appropriate valuation methodology.

Inter-company debtors – US affiliates

As mentioned in the last progress report, Storm's total claim against the various US affiliates has been agreed at \$1.1bn. Storm received a first distribution from the US affiliates of \$66m in April 2012 and a second distribution of \$46m on 1 October 2012. The quantum and timing of future dividends are uncertain.

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 as it has sought to attract third party servicing business which may add to the value of Storm's holding in Acenden.

During the Period, the Administrators have received loan interest and principal sums totalling £3.1m.

Non-affiliate creditors

Storm has agreed the value of a claim from the non-affiliate creditor mentioned in previous reports.

Pensions

As noted in our last report, Storm (together with 36 other affected entities) applied to the Upper Tribunal, seeking an Order that the Trustees' referral to the Upper Tribunal relating to a Financial Support Direction ("FSD") should be struck out on the grounds that it is now no longer possible for the Pensions Regulator to impose a 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 handed down on 14 June 2012; the Upper Tribunal declined to strike out the Trustees' referral and Storm is therefore still at risk of a FSD. The Upper Tribunal's decision has been appealed to the Court of Appeal, and that Hearing has now been listed to begin on 29 April 2013.

The Administrators continue to keep the pensions issues under close review.

At present, before any release of funds to creditors can occur, a full reserve of £124m for potential future pension liabilities would need to be made. The Administrators are investigating certain options which would enable them to reduce the reserve in order to release funds to creditors.

Taxation

All Corporation Tax computations have been filed with HM Revenue and Customs up to year end 2010, showing significant losses available to shelter further trading income. The 2011 tax computation, which shows no tax payable, is due to be filed imminently.

Storm received a net tax repayment of £8m in the period, relating to prior year tax overpaid and group relief. Further payments of £4.1m were received for losses surrendered for post appointment periods by way of group relief.

With regard to Value Added Tax ("VAT"), approximately £750k has been repaid to Storm for all post insolvency periods to August 2011.

No further significant tax recoveries are envisaged.

Future strategy

The Administrators will continue to:

- Pursue claims against other members of the Lehman Group;
- Seek the return of Storm's assets held by other Lehman Group entities;
- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with the view to future sales;
- Closely review the pensions issues and work to reduce the reserve held; and
- Monitor the strategy with regards to the declaration of an interim distribution.

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>	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) 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.

Creditors have been provided with time cost analyses and narratives for the period up to 30 June 2012 and remuneration of £9.9m including VAT has been approved by creditors and drawn.

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 2012 to 30 June 2012:

Grade	Hours	Costs (£'000)
Partner	49	39
Director	401	260
Senior Manager	451	231
Manager	455	195
Senior Associate	807	268
Associate	258	56
Total	2,417	1,049

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

Grade	Hours	Costs (£'000)
Loan Portfolio Management	1,007	490
Strategy and Planning	314	138
Inter-company	303	116
Accounting and Treasury	299	91
Tax and VAT	154	86
Statutory and Compliance	132	50
Realisation of Assets	113	48
Central Services	68	21
Employee Issues	27	9
Total	2,417	1,049

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. As at the end of the Period Storm has incurred cost of £0.1m in respect of Corporation Tax recoveries and £18k in respect of VAT recoveries. These additional costs have been included in the receipts and payments account in Section 5 of this report.

Receipts and payments account

An account of the receipts and payments in the Administration for the Period 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 £40.6m in respect of a distribution from various US affiliate debtors.

Significant payments in the Period are:

- Payroll and employee costs of £0.3m; and
- Office holders' remuneration of £2.8m, grossed up to £2.9m to include time costs relating to tax recoveries as described above.

Total cash held as at 22 September 2012 was £131.9m.

Section 5 Receipts and payments account

	As at 22 September 2012			As at 22 September 2012	Movements from 23 March 2012 to 22 September 2012	As at 22 March 2012 (GBP equivalent) RESTATED	As at 22 March 2012 (GBP equivalent)
	GBP (£)	EUR (€)	USD (\$)	TOTAL GBP equivalent £	September 2012 (GBP equivalent) £	at 22 September exchange rate £	at 22 September exchange rate £
RECEIPTS	000's	000's	000's	000's	000's	000's	000's
Principal and interest	54,273	51,589	21	95,509	3,141	92,368	94,107
Corporation Tax repayment	14,870	-	-	14,870	12,337	2,533	2,533
VAT repayment	769	-	-	769	19	750	750
Coupon receipt	-	1,513	-	1,209	-	1,209	1,260
Other recoveries	-	-	65,973	40,586	40,586	-	-
Inter estate transfer*	44,324	-	-	44,324	-	44,324	44,324
Receipts Grand Totals	114,236	53,102	65,994	197,267	56,083	141,184	142,974
PAYMENTS							
Building and occupancy cost	636	-	-	636	104	532	532
Payroll and employee costs	8,946	-	-	8,946	331	8,615	8,615
Acenden share repurchase	50	-	-	50	-	50	50
Asset Management Company expenses	80	-	-	80	-	80	80
Legal fees	2,973	-	5	2,973	155	2,818	2,818
Insurance fees	7	-	-	7	-	7	7
Administrators' remuneration	10,047	-	-	10,047	2,938	7,109	7,109
Administrators' disbursements	21	-	-	21	15	6	6
Other professional fees	174	-	-	174	75	99	99
Inter estate transfer*	-	53,077	-	42,414	-	42,414	44,204
Payments Grand Totals	22,934	53,077	5	65,348	3,618	61,730	63,520
NET POSITION	91,302	25	65,989	131,919	52,465	79,454	79,454
CASH BALANCES							
HSBC	1,698	25	21	1,731			
Money markets	89,604	-	65,968	130,188			
Total Cash	91,302	25	65,989	131,919			

Exchange rate as at 22 March 2012:

EURO €1 : GBP 0.8328

USD \$1 : GBP 0.6329

Exchange rate as at 22 September 2012:

EURO €1 : GBP 0.7991

USD \$1 : GBP 0.6152

Amounts include VAT where applicable

* The difference in total GBP equivalents arises from converted sums being converted at exchange rates as at the end of each reporting period. No actual losses on currency were made in the Period.



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