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# *Storm Funding Limited* *– In Administration*

Joint Administrators' progress  
report for the period 23 September  
2012 to 22 March 2013

5 April 2013

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

## ***Introduction***

This is the ninth 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' eight 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](http://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 2013 (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 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***

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.

## ***Proposal for making distributions***

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.

As referred to in greater detail in Section 2, Storm is still at risk of a Financial Support Direction ("FSD") being imposed against it and, consequently, will have to hold a significant pension liability reserve. The Administrators have investigated options to enable Storm to reduce this reserve and allow for a release of funds to creditors. However, to date it has not been possible to implement any such options. The Administrators will continue to assess whether there are any steps that can be taken to reduce the reserve held for the FSD liability and thereby assist the release of funds.

## ***Change of Administrators***

Upon the application of the Administrators, the High Court of Justice ("the Court") made an order on 22 March 2013 that JG Parr be appointed Administrator and that DA Howell and MJA Jervis cease to be Administrators of the Company.

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The Court also ordered that the former Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as Administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its order by an application issued within 28 days of receipt of this progress report.

### **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

*DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis and DA Howell were appointed as Joint Administrators of Storm Funding Limited. Upon the application of the Joint Administrators, the High Court of Justice made an order on 22 March 2013 that JG Parr be appointed Joint Administrator and that MJA Jervis and DA Howell cease to be Joint Administrators. The Joint Administrators were appointed to manage Storm's affairs, business and property as agents without personal liability.*

*DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis, DA Howell and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

*The Joint Administrators 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.*

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## ***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) (in Administration) ("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, the Administrators have made progress in identifying assets which are still held and not subject to competing claims and 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 ("Bankhaus") for £2.6bn. Storm and its advisers have reviewed this claim and are in dialogue with Bankhaus to address various security valuation issues.

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 continue to work 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 dividend from the US affiliates of \$66m in April 2012 and a second dividend of \$46m on 1 October 2012. A further dividend is expected in April 2013. The quantum and timing of additional 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 £3.4m.

#### **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, the Upper Tribunal declined to grant the strike-out application that was brought by Storm and 36 other entities in relation to the Trustees' referral to the Upper Tribunal relating to the FSD proceedings. The Upper Tribunal's decision has been appealed and is listed to begin in the Court of Appeal on 29 April 2013.

As already referred to in Section 1, the Administrators have investigated options which would enable them to reduce the reserve in order to release funds to creditors, but it has not proved possible to date to implement any of these. The Administrators will continue to explore these options.

#### **Taxation**

The Corporation Tax computations for all periods to the year ended 22 September 2010 have been filed and agreed with HM Revenue and Customs. The Corporation Tax return for the year ended 22 September 2011 was recently submitted and showed no tax payable with significant losses available to shelter future trading income.

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To date Storm has received net repayments of £14.9m relating to prior year tax and group relief.

With regard to Value Added Tax (“VAT”), approximately £1m has been paid to Storm for all of the post insolvency periods to February 2012.

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, AV Lomas, SA Pearson and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. JG Parr was appointed Joint Administrator and MJA Jervis and DA Howell ceased to be Joint Administrators by order of the Court on 22 March 2013.
<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.

On 5 September 2012 the Administrators provided creditors with time cost analyses and narratives for the period 1 January 2012 to 30 June 2012 totalling £1.3m. This remuneration was drawn on 26 September 2012.

This brings the total amount of Administrators' remuneration drawn to date to £11.2m.

The time cost analyses and narratives for the period 1 July 2012 to 31 December 2012 have recently been circulated to creditors. Costs for this period total £795.8k, which represents 1,856.8 hours at an average hourly rate of £428.

### 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 2012 to 31 December 2012:

Grade	Hours	Costs (£'000)
Partner	32	27
Director	339	220
Senior Manager	306	156
Manager	450	189
Senior Associate	481	150
Associate	249	54
<b>Total</b>	<b>1,857</b>	<b>796</b>

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

Grade	Hours	Costs (£'000)
Loan Portfolio Management	879	413
Strategy and Planning	193	92
Inter-company	146	59
Accounting and Treasury	223	66
Tax and VAT	70	39
Statutory and Compliance	131	51
Realisation of Assets	155	57
Central Services	45	14
Employee Issues	15	5
<b>Total</b>	<b>1,857</b>	<b>796</b>

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.

### 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 receipts in the Period are:

- £30.1m in respect of a distribution from various US affiliate debtors; and
- £3.4m in respect of principal and interest.



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The significant payment in the Period is:

- £1.2m in respect of Administrators' remuneration.

Total cash held as at 23 March 2013 was £165.0m (GBP equivalent).

## Section 5 Receipts and payments account

	As at 22 March 2013			As at	Movements	As at	As at
	GBP (£)	EUR (€)	USD (\$)	22 March 2013	from 23	22 September 2012	22 September 2012
	000's	000's	000's	TOTAL GBP	September 2012	(GBP equivalent)	RESTATED
	£	€	\$	equivalent	to 22 March 2013	at 22 March 2013	at 22 March 2013
				£	(GBP equivalent)	exchange rate	exchange rate
					£		
<b>RECEIPTS</b>							
Principal and interest	57,654	51,589	55	101,689	3,402	98,287	95,509
Corporation Tax repayment	14,871	-	-	14,871	1	14,870	14,870
VAT repayment	1,031	-	-	1,031	262	769	769
Coupon receipt	-	1,513	-	1,290	-	1,290	1,209
Intercompany debtors	-	-	111,910	73,434	30,143	43,291	40,586
Other recoveries	149	-	-	149	149	-	-
Inter estate transfer*	115,212	-	-	115,212	70,888	44,324	44,324
<b>Receipts Grand Totals</b>	<b>188,917</b>	<b>53,102</b>	<b>111,965</b>	<b>307,676</b>	<b>104,845</b>	<b>202,831</b>	<b>197,267</b>
<b>PAYMENTS</b>							
Building and occupancy cost	636	-	-	636	-	636	636
Payroll and employee costs	8,989	-	-	8,989	43	8,946	8,946
Capstone share repurchase	50	-	-	50	-	50	50
Asset Management Company expenses	80	-	-	80	-	80	80
Legal fees	3,010	-	5	3,010	34	2,976	2,973
Insurance fees	7	-	-	7	-	7	7
Office holders' remuneration	11,254	-	-	11,254	1,206	10,048	10,048
Office holders' disbursements	21	-	-	21	-	21	21
Other professional fees	164	-	-	164	-9	173	173
Inter estate transfer*	-	53,077	111,500	118,436	73,166	45,270	42,414
<b>Payments Grand Totals</b>	<b>24,211</b>	<b>53,077</b>	<b>111,505</b>	<b>142,647</b>	<b>74,440</b>	<b>68,207</b>	<b>65,348</b>
<b>NET POSITION</b>	<b>164,706</b>	<b>25</b>	<b>460</b>	<b>165,029</b>	<b>30,405</b>	<b>134,624</b>	<b>131,919</b>
<b>CASH BALANCES</b>							
HSBC	1,323	25	460	1,646	-	-	-
Money markets	163,383	-	-	163,383	-	-	-
<b>Total Cash</b>	<b>164,706</b>	<b>25</b>	<b>460</b>	<b>165,029</b>			

### Exchange rate as at 22 September 2012:

EURO €1 : GBP	0.7991
USD \$1 : GBP	0.6152

### Exchange rate as at 22 March 2013:

EURO €1 : GBP	0.8529
USD \$1 : GBP	0.6562

Amounts include VAT where applicable

\* The difference in total GBP equivalent arises from the exchange rate movement between the end of each reporting period. No actual losses on currency were made in the Period.



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