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# *Storm Funding Limited* *– In Administration*

Joint Administrators' progress  
report for the period 23 March 2015  
to 22 September 2015

15 October 2015

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

## ***Introduction***

This is the fourteenth 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' thirteen previous progress reports. If any creditor requires copies of these reports, these are 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). Alternatively, please contact Nigel Rackham at PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.

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 2015 (the "Period").

## ***Business activities***

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

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***

On 24 June 2013, the High Court of Justice made an Order pursuant to paragraph 65(3) of Schedule B1 of the Insolvency Act 1986, granting permission to make distributions to unsecured creditors of Storm.

Storm paid a fifth interim dividend of 2.3 pence in the pound on 30 April 2015 and a sixth interim dividend of 3.3 pence in the pound on 12 August 2015. The totals paid in the fifth and sixth distributions by way of dividends to creditors with agreed claims were c.£50.3m and c.£72.3m respectively. Catch-up dividends of c.£2.1m were also paid in respect of a recently agreed claim.

These dividends take the cumulative interim dividend to 37.6 pence in the pound and aggregate payments to c.£824m.

The Administrators are currently unable to provide an estimate of the likely timing or quantum of future dividends as this is dependent on agreement of the last remaining, unagreed claim and further asset recoveries, each of which are uncertain.

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## ***Future reports***

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

Signed: 

D Y Schwarzmenn  
Joint Administrator  
Storm Funding Limited

*DY Schwarzmenn, AV Lomas, SA Pearson, and J G Parr were appointed as Joint Administrators of Storm Funding Limited to manage Storm's affairs, business and property as agents without personal liability. DY Schwarzmenn, AV Lomas, SA Pearson and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

*DY Schwarzmenn, AV Lomas, SA Pearson, and JG Parr 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.*

*The Administrators are bound by the Insolvency Code of Ethics which can be found at:  
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

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

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

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

As reported previously, 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"). The Administrators entered into an Investment Management Agreement with LBIE whereby it markets and realises these securities on behalf of Storm.

As part of the recovery exercise it was also discovered that a number of securities were no longer held in the Lehman depository accounts and as a result an unsecured claim was submitted to LBIE (the "Shortfall Claim").

Additional securities have been realised in the Period totalling c.£0.3m. The aggregate cumulative recovery, including funds from corporate actions and interest, is c.£260.1m (GBP equivalent at 22 September 2015 exchange rates). The majority of the securities have now been realised, and no further material recoveries are anticipated.

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

In addition to the Shortfall Claim, Storm also has a claim against LBIE arising from a repo/reverse repo arrangement ("Repo Claim"). Both the Shortfall Claim and the Repo Claim involved issues of security valuation. After extensive evaluation, the claims were agreed with LBIE in March 2014. After taking into account an offsetting, small intercompany balance owed to LBIE, the net claim amounts to c.£158m owed to Storm. The claim was agreed on the basis that Storm waives its entitlement to statutory interest accrued before 31 August 2012.

To date, Storm has received distributions of c.£158m, representing 100 pence in the pound. Further distributions of statutory interest are anticipated.

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

As mentioned in previous reports, Storm's total claim against the various US affiliates was agreed at c.\$1.1bn. Storm sold its largest US affiliate claim to a third party in August 2014.

As previously reported, following the sale of Acenden Limited (formerly known as Capstone Mortgage Services Limited) ("Acenden"), Storm took assignment from Acenden of an additional US affiliate claim (the "Assigned Claim"). Storm agreed a sale of this claim for consideration of c.\$7.3m following a competitive bidding process with the purchase price being received during the Period.

Following the sale, Storm's claims against the remaining US affiliates total c.\$336m.

Storm has received interim dividends in respect of all US affiliate claims totalling c.\$330m, with c.\$10.6m received in the Period.

#### **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 by Acenden.

To date, the Administrators have received loan interest and principal sums totalling c.£67.5m, of which £0.9m was received in the Period. The amount previously reported included other asset realisations. On the basis of current projections Storm anticipates recovering the remaining outstanding balance of c.£39.9m over the next four years.

In addition, Storm had made loans to two Lehman mortgage servicers, Southern Pacific Mortgages Limited ("SPML") and Preferred Mortgages Limited ("PML"), of c.£50.1m and c.£16.8m respectively. Storm originally agreed to delay pursuit of these sums to allow these companies to trade profitably and restore their balance sheets.

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This objective was met and the loans were repaid during the Period.

### **Acenden sale**

In 2010 Storm purchased Acenden from another Lehman Group company (the “Vendor”). An element of the purchase price was deferred consideration due to the Vendor on Storm realising value from its shareholding in Acenden.

The sale of Storm’s shareholding in Acenden was completed on 6 January 2015, following a competitive sale process. The sale was conditional on regulatory approval which was received on 3 June 2015.

Under the terms of the sale, Storm is unable to disclose details of the final consideration agreed with the buyer for its shareholding in Acenden.

The recovery, net of the deferred consideration paid to the Vendor was c.£14m, which was received in the Period. This sale also involves an element of deferred consideration payable on 3 June 2020, which the Administrators’ team will monitor. Such recovery is subject to conditions and is therefore uncertain.

### **Claims agreement**

Storm has received 14 claims from unsecured creditors, mainly Lehman affiliates, totalling c.£3.2bn. The two largest agreed claims are from Lehman Brothers Bankhaus (“Bankhaus”) and Mable, of c.£1.8bn and c.£366m respectively. Eight other claims have been admitted and three claims have been withdrawn. The Administrators have also admitted c.£6m during the Period, being a portion of one remaining complex claim and continue to adjudicate the balance, which has been reserved for at its submitted value of c.£202m.

### **Taxation**

All corporation tax returns up to the year ended 22 September 2012 have been agreed by HM Revenue & Customs (“HMRC”). The corporation tax return for the year ended 22 September 2013 has been filed. Storm was profitable within the period however the computation shows no tax payable as significant brought forward tax losses were available to shelter this trading income. The corporation tax computation for the year ended 22 September 2014 is currently being prepared.

To date, Value Added Tax (“VAT”), totalling c.£2.3m has been repaid to Storm. A claim for

c.£0.2m of VAT for the 31 May 2015 VAT return has been submitted to HMRC and has not yet been approved. Immaterial VAT repayments are expected to be distributed to Storm in the near future.

### **Future strategy**

The Administrators will continue to:

- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with a view to future realisations;
- Adjudicate the balance of the remaining claim and any further claims received from unsecured creditors; and
- When appropriate, make further interim distributions.

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## 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.
<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) of Schedule B1 of the Insolvency Act 1986, 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>	Dividends paid to date total 37.6 pence in the pound. The Administrators are currently unable to estimate the quantum or timing of further distributions.
<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) of the Insolvency Act 1986:</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.

At a meeting held by correspondence on 20 September 2010, those creditors who voted, unanimously approved a resolution authorising the Administrators to draw remuneration on the basis of their time costs, together with Category 2 disbursements and VAT from 1 July 2010 onwards from time to time.

In accordance with the resolution, the Administrators can draw remuneration 21 days after circulating details to creditors.

On 4 September 2015, the fee analysis for the period from 1 January 2015 to 30 June 2015 was circulated to creditors. After the Period, on 30 September 2015, c.£0.6m (VAT inclusive) representing the Administrators' remuneration based on time costs incurred in the period from 1 January 2015 to 30 June 2015 was drawn.

This brings the total amount of Administrators' remuneration drawn to date to c.£20.5m (VAT inclusive).

### 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 2015 to 30 June 2015:

Grade	Hours	Costs (£'000)
Partner	16	15
Director	285	193
Senior manager	47	39
Manager	132	61
Senior associate	533	148
Associate	203	45
Total	1,216	501

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

Category	Hours	Costs (£'000)
Accounting and treasury	266	73
Central services	27	8
Creditor claims	129	45
Loan portfolio management and sale of Acenden	350	185
Realisations of other assets	47	14
Statutory and compliance	83	25
Strategy and planning	143	53
Tax and VAT	171	98
Total	1,216	501



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

An account of the receipts and payments in the Administration for the Period and the cumulative total since commencement of the Administration is set out in Section 5 of this report.

The significant receipts in the Period are:

- c.£78.6m of intercompany debtor recoveries comprising:
  - c.£66.9m in respect of the SPML and PML loan repayments;
  - c.\$10.6m in respect of dividends on intercompany debts; and
  - c.\$7.3m in respect of the sale of the Assigned Claim; and
- c.£14.0m in respect of the sale of Acenden net of the deferred consideration paid.

The significant payments in the Period are:

- c.£124.7m of dividends paid, comprising:
  - c.£50.3m and c.£72.3m in respect of the fifth and sixth interim dividends respectively; and
  - c.£2.1m of catch-up dividends in respect of the recently admitted portion of the remaining claim.

Total cash held as at 22 September 2015 was c.£92.2m (GBP equivalent).

## Section 5 Receipts and payments account

	As at 22 September 2015			As at 22 September 2015 TOTAL GBP equivalent	Movements from 23 March 2015 to 22 September 2015 (GBP equivalent)	23 March 2015 (GBP equivalent) RESTATED at 22 September 2015	As at 23 March 2015 (GBP equivalent)
	GBP (£)	EUR (€)	USD (\$)	£	£	£	£
	000's	000's	000's	000's	000's	000's	000's
<b>RECEIPTS</b>							
Principal and interest on mortgage assets	68,798	51,190	-	105,921	901	105,020	104,907
Acenden net proceeds	29,771	-	-	29,771	13,996	15,775	15,775
Interest on money market deposits	1,838	400	76	2,178	193	1,985	1,985
Corporation tax repayments	23,296	-	-	23,296	-	23,296	23,296
VAT repayments	2,256	-	-	2,256	-	2,256	2,256
Coupon receipt	-	1,513	-	1,097	-	1,097	1,094
Intercompany debtors	224,398	-	466,689	528,259	78,617	449,642	458,124
PML and SPML legal costs recovered	172	-	-	172	-	172	172
Foreign currency conversions	574,563	-	-	574,563	11,927	562,636	562,636
Trust asset recoveries	21,919	35,654	326,176	260,149	291	259,858	265,935
<b>Receipts grand totals</b>	<b>947,011</b>	<b>88,757</b>	<b>792,941</b>	<b>1,527,662</b>	<b>105,925</b>	<b>1,421,737</b>	<b>1,436,180</b>
<b>PAYMENTS</b>							
Building and occupancy costs	663	-	-	663	8	655	655
Payroll and employee costs	5,316	-	-	5,316	9	5,307	5,307
Acenden share repurchase	50	-	-	50	-	50	50
Asset management company expenses	80	-	-	80	-	80	80
Legal fees	4,337	-	5	4,340	176	4,164	4,164
Insurance fees	7	-	-	7	-	7	7
Administrators' remuneration	19,887	-	-	19,887	2,206	17,681	17,681
Administrators' disbursements	40	-	-	40	6	34	34
Other professional fees	496	-	-	496	6	490	490
Foreign currency conversions	-	88,462	790,243	578,680	11,806	566,874	581,272
Trust asset fees	137	267	2,446	1,924	3	1,921	1,966
Distributions to unsecured creditors	823,979	-	-	823,979	124,704	699,275	699,275
<b>Payments grand totals</b>	<b>854,992</b>	<b>88,729</b>	<b>792,694</b>	<b>1,435,462</b>	<b>138,924</b>	<b>1,296,538</b>	<b>1,310,981</b>
<b>NET POSITION</b>	<b>92,019</b>	<b>28</b>	<b>247</b>	<b>92,200</b>	<b>(32,999)</b>	<b>125,199</b>	<b>125,199</b>
<b>CASH BALANCES</b>							
HSBC	764	28	247	945	-	-	-
Money markets	91,255	-	-	91,255	-	-	-
<b>Total cash</b>	<b>92,019</b>	<b>28</b>	<b>247</b>	<b>92,200</b>			
<b>Exchange rate as at 23 March 2015</b>							
EURO €1 : GBP	0.7230						
USD \$1 : GBP	0.6700						
<b>Exchange rate as at 22 September 2015</b>							
EURO €1 : GBP	0.7252						
USD \$1 : GBP	0.6511						

Amounts include VAT where applicable



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