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# ***Storm Funding Limited – In Administration***

Joint Administrators' progress  
report for the period 23 September  
2013 to 22 March 2014

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11 April 2014

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

## ***Introduction***

This is the eleventh 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' ten previous progress reports. If any creditor requires copies of these reports, please contact Stephen Old 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 2014 (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 first interim dividend of 10.4 pence in the pound on 25 September 2013. The total paid by way of dividend to creditors with agreed claims was £227m.

A second interim dividend of 7.0 pence in the pound was paid on 12 November 2013. The total paid by way of dividend to creditors with agreed claims was £153m.

This takes the cumulative interim dividend to 17.4 pence in the pound and aggregate payments to £380m.

Further realisations and the agreement of a significant claim against Lehman Brothers International (Europe) ("LBIE") will enable a third distribution of approximately 10 pence in the pound to be made to unsecured creditors.

A deadline to lodge proof of debt forms for inclusion in this third interim distribution has been set for 30 April 2014 with the distribution to be paid no later than 30 June 2014. The Administrators encourage any creditor that has not submitted its claim to do so as soon as possible.

The Administrators are unable to provide an estimate of any further dividends as this is dependent upon the agreement of remaining claims 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 Schwarzmman  
Joint Administrator  
Storm Funding Limited

*DY Schwarzmman, 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 Schwarzmman, 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 Schwarzmman, 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.*

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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 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 are 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 £85m. The aggregate recovery, including funds from corporate actions and interest, is £226m (GBP equivalent at 22 March 2014 exchange rates).

#### **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 £158m owed to Storm.

LBIE has announced a further interim dividend to be paid on or around 30 April 2014, but no later than 31 May 2014. This will bring the cumulative dividend paid by LBIE to 100 pence in the pound.

#### **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 has received interim dividends from the US affiliates up to the end of the Period totalling \$235m. Further interim dividends totalling \$68.7m were received in April 2014. 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 £6.7m.

#### **Other assets**

In line with its five year hold strategy for Acenden, Storm has now commenced a sale process which is expected to complete in the second half of 2014.

#### **Claims agreement**

In addition to the pension deficit claim reserve of £119m referred to below, Storm has received 14 claims from unsecured creditors, mainly Lehman affiliates, totalling £3.3bn. The two largest agreed claims are from Lehman Brothers Bankhaus ("Bankhaus") and Mable, totalling £1.8bn and £366m respectively. Nine other claims have been agreed and one claim has been withdrawn. The Administrators continue to adjudicate the remaining two complex claims which have been reserved for at their submitted value of £285m in aggregate.

#### **Pensions**

Following the Supreme Court judgment in July 2013 to which we referred in our last report, the stay which had been in force for the Upper Tribunal proceedings came to an end. The Upper Tribunal has the role of deciding whether a Financial

Support Direction ("FSD") should be made, and against which entities, in respect of the Lehman Brothers Pension Scheme. Storm is one of the potential targets of a FSD.

In accordance with directions from the Upper Tribunal, written claims have been produced by the Pensions Regulator and the pension scheme trustees. The Upper Tribunal has also issued a timetable for the FSD targets (including Storm) to file their written replies, and has set a date in February 2015 for a 15-day substantive hearing. The Upper Tribunal is expected to issue further directions in July 2014.

Also since our last report the Administrators have participated, with the administrators of 13 other Lehman companies, in a High Court application relating to the maximum quantum of a Contribution Notice ("CN") if this were to be issued by the Pensions Regulator in the event of non-compliance with a FSD. The High Court held that the aggregate liability under CNs issued to more than one target company could exceed the amount of £119m claimed as a debt due from the pension scheme employer, Lehman Brothers Limited (in administration). This judgment is being appealed.

In the light of the activity set out above, the risk of Storm having a liability to the pension scheme under a FSD remains, and the Administrators continue to monitor the position and take steps as appropriate. In the meantime, Storm is continuing to reserve £119m in respect of any liability that may arise in connection with a FSD.

## **Taxation**

All Corporation Tax returns up to the year ended 22 September 2011 have now been agreed by HM Revenue and Customs and show no tax payable. The Corporation Tax return for the year ended 22 September 2012 has been submitted but has not yet been agreed by HM Revenue and Customs. The 2012 return also shows no tax payable, with significant losses of £278m available to shelter future trading income or to surrender for value as group relief to other companies in the Lehman Group. It is uncertain at this stage as to what value Storm may achieve for these losses.

To date Storm has received net repayments of £17.3m relating to prior year tax and group relief, including payments totalling £2.4m in the Period.

Value Added Tax ("VAT") repayments of £0.2m for returns filed for the quarters ended November 2012 to August 2013 were received in the Period. To date, Storm has received total VAT repayments of £1.6m. Storm is also due to receive a further £0.2m

in respect of the VAT return filed for the quarter ended November 2013.

## **Future strategy**

The Administrators will continue to:

- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with the view to future sales;
- Pursue the remaining claims against other members of the Lehman Group;
- Progress the sale of Acenden;
- Adjudicate any remaining claims received and yet to be agreed from unsecured creditors;
- Closely review the pensions issues and work to reduce the reserve held; and
- When appropriate, make a further 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 Schwarzmamm, 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) 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>	<p>On 25 September 2013 the Administrators declared a first interim dividend of 10.4 pence in the pound.</p> <p>On 11 October 2013 the Administrators declared a second interim dividend of 7.0 pence in the pound.</p> <p>On 28 March 2014 the Administrators issued a Notice of Intended Dividend to all known creditors stating that the last day for proving is 30 April 2014. The third interim dividend of approximately 10 pence in the pound will be paid on or before 30 June 2014 to all creditors with agreed claims.</p> <p>The Administrators are unable to estimate the quantum or timing of further distributions.</p>
<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.

In the Period, £3.1m (VAT inclusive) representing the Administrators' remuneration for the period from 1 January 2013 to 31 December 2013 has been drawn.

This brings the total amount of Administrators' remuneration drawn to date to £15.3m (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 July 2013 to 31 December 2013:

Grade	Hours	Costs (£'000)
Partner	59	49
Director	611	413
Senior Manager	311	184
Manager	1473	641
Senior Associate	891	256
Associate	451	102
<b>Total</b>	<b>3,796</b>	<b>1,645</b>

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

Grade	Hours	Costs (£'000)
Loan Portfolio Management	1,913	876
Strategy and Planning	411	171
Inter-company	507	193
Accounting and Treasury	283	83
Tax and VAT	197	131
Statutory and Compliance	154	57
Realisation of Assets	299	126
Central Services	32	8
<b>Total</b>	<b>3,796</b>	<b>1,645</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:

- £85.0m in respect of trust asset recoveries;
- £37.7m in respect of a distribution from various US affiliate debtors;
- £6.7m in respect of principal and interest; and
- £3.1m in respect of a recharge from a Lehman affiliate for its share of asset management fees paid for by Storm in a previous period. This is shown under



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payments as it nets against the related cost.

The significant payments in the Period are:

- £380m in respect of interim dividends; and
- £3.1m in respect of Administrators' remuneration.

Total cash held as at 22 March 2014 was £121m (GBP equivalent).

## Section 5 Receipts and payments account

	As at 22 March 2014			As at 22 March 2014 TOTAL GBP equivalent	Movements from 23 September 2013 to 22 March 2014 (GBP equivalent)	As at 22 September 2013 (GBP equivalent) RESTATED at 22 March 2014 exchange rate	As at 22 September 2013 (GBP equivalent)
	GBP (£) 000's	EUR (€) 000's	USD (\$) 000's	£ 000's	£ 000's	£ 000's	£ 000's
<b>RECEIPTS</b>							
Principal and interest on mortgage assets	74,492	51,190	-	117,266	6,653	110,613	111,058
Interest	1,241	400	72	1,619	238	1,381	1,386
Corporation Tax repayment	17,269	-	-	17,269	2,398	14,871	14,871
VAT repayment	1,580	-	-	1,580	246	1,334	1,334
Coupon receipt	-	1,513	-	1,264	-	1,264	1,277
Intercompany debtors	-	-	235,401	142,724	37,690	105,034	108,274
PML and SPML legal costs recovered	149	-	-	149	-	149	149
Inter estate transfers	417,946	-	-	417,947	114,662	303,285	303,285
Trust asset recoveries	14,961	28,682	309,153	226,366	84,984	141,382	145,352
<b>Receipts Grand Totals</b>	<b>527,638</b>	<b>81,785</b>	<b>544,626</b>	<b>926,184</b>	<b>246,871</b>	<b>679,315</b>	<b>686,986</b>
<b>PAYMENTS</b>							
Building and occupancy cost	638	-	-	638	-	638	638
Payroll and employee costs	5,901	-	-	5,901	(3,109)	9,010	9,010
Capstone share repurchase	50	-	-	50	-	50	50
Asset Management Company expenses	80	-	-	80	-	80	80
Legal fees	3,507	-	5	3,510	320	3,190	3,190
Insurance fees	7	-	-	7	-	7	7
Administrators' remuneration	15,258	-	-	15,258	3,122	12,136	12,136
Administrators' disbursements	21	-	-	21	-	21	21
Other professional fees	485	-	-	485	259	226	226
Inter estate transfers	-	81,540	542,258	396,905	113,499	283,406	291,041
Trust Asset fees	85	215	2,319	1,671	636	1,035	1,065
Distributions to unsecured creditors	380,231	-	-	380,231	380,231	-	-
<b>Payments Grand Totals</b>	<b>406,263</b>	<b>81,755</b>	<b>544,582</b>	<b>804,757</b>	<b>494,958</b>	<b>309,799</b>	<b>317,463</b>
<b>NET POSITION</b>	<b>121,375</b>	<b>30</b>	<b>44</b>	<b>121,427</b>	<b>(248,087)</b>	<b>369,516</b>	<b>369,523</b>
<b>CASH BALANCES</b>							
HSBC	751	30	44	803			
Money markets	120,624	-	-	120,624			
<b>Total Cash</b>	<b>121,375</b>	<b>30</b>	<b>44</b>	<b>121,427</b>			

Exchange rate as at 22 September 2013:

EURO €1 : GBP 0.8443  
USD \$1 : GBP 0.6250

Exchange rate as at 22 March 2014:

EURO €1 : GBP 0.8356  
USD \$1 : GBP 0.6063

Amounts include VAT where applicable



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