
Storm Funding Limited – In Administration

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

18 October 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the tenth 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' nine 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 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

On 25 September 2013 the Administrators declared a first interim dividend of 10.4 pence in the pound. The total paid out by way of dividend to creditors with agreed claims was £221,456,086

Further realisations and the agreement of a significant unsecured claim will enable a second distribution to be made to unsecured creditors. On 11 October 2013 the Administrators issued a Notice of Intended Dividend to all known creditors stating that the last date of proving is 4 November 2013.

The second interim dividend of approximately 5 to 7 pence in the pound will be paid on or before 3 January 2014 to all creditors with agreed claims

It is not possible for the Administrators to provide a reliable estimate of the quantum and timing of further dividends to ordinary unsecured creditors

The Administrators would encourage any creditor that has not submitted its claim to do so as soon as possible

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 Schwarzmann
Joint Administrator
Storm Funding Limited

DY Schwarzmann, 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 Schwarzmann, 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 Schwarzmann, 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.

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")

During the Period the Administrators entered into an Investment Management Agreement ("IMA") with LBIE whereby it will market and realise these securities on behalf of Storm. Recoveries made in the Period total £145m, including funds from corporate actions and interest. Subject to market conditions further recoveries are estimated to be in the region of £75m and the majority is expected to be realised by the end of 2013.

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 will be submitted to LBIE. Whilst the quantification has yet to be finalised it is anticipated to be in excess of £100m.

Repo'd securities

As reported previously, Storm received a net claim from Lehman Brothers Bankhaus AG ("Bankhaus") for £2,616m. Storm and its advisers reviewed this claim and entered into dialogue with Bankhaus to address various security valuation issues. Due to the complexity of the matter it was agreed with Bankhaus to appoint an independent valuer and a methodology was agreed to fix its claim. The valuer has completed its valuation report and the Administrators have in consequence admitted Bankhaus's claim for £1,783m.

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, however due to the complex nature of the valuation issues its resolution continues to be protracted.

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 dividends from the US affiliates up to the end of the Period totalling \$173m. Further dividends of \$62m were received in October 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 £11.2m.

Claims adjudication

In addition to the pension reserve of £119m referred to below, Storm has received 14 claims from unsecured creditors, mainly Lehman companies, totalling £3.3bn. The next largest claim after Bankhaus, is from Mable Commercial Funding Ltd (in Administration), which has been agreed at £366m. Nine other claims have been agreed and the Administrators continue to adjudicate the remaining three complex claims which have been reserved for at their submitted value of £287m in aggregate.

Pensions

We explained in our last report that the Upper Tribunal's decision not to grant the strike-out application brought by Storm and 36 other entities was being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk that we have explained previously of a Financial Support Direction ("FSD") being imposed on Storm remains in place.

The Supreme Court issued its judgment on 24 July 2013 in a case brought by certain other Lehman entities, whereby it held that the liability derived from a FSD constitutes a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential additional unsecured debt rather than an administration expense.

During the Period Storm also joined with other Lehman entities to establish a collective reserve for a possible FSD liability. However, it has not been possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it has therefore not been brought into full effect. As a result, Storm is now participating in a Court process which may assist in determining whether the entities could make a collective reserve or whether they will need to continue to reserve separately.

Meanwhile a full reserve of £119m for the potential future pension liability has been made. The figure previously reported included a notional £5m for legal costs. Such costs are now reserved for separately.

The Administrators continue to monitor the pension issues closely.

Taxation

The Corporation Tax return for the period ended 22 September 2011 submitted previously has not yet been agreed by HM Revenue & Customs but shows no tax payable. The Corporation Tax return for the period ended 22 September 2012 has been drafted and will be submitted shortly. The return for this period also shows no tax payable, with significant losses available to shelter future trading income or to surrender as group relief.

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 £1.3m has been paid to Storm for all of the post insolvency periods to August 2012.

No further significant tax recoveries are envisaged.

Future strategy

The Administrators will continue to

- Pursue claims against other members of the Lehman Group,
- Monitor the realisation of securities under the IMA,
- 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,
- Adjudicate any further claims received from unsecured creditors, and
- Closely monitor the level of funds held to ensure that further distributions are declared when appropriate.

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) 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>	On 25 September 2013 the Administrators declared a first interim dividend of 10 4 pence in the pound On 11 October the Administrators issued a Notice of Intended Dividend to all known creditors stating that the last date of proving is 4 November 2013. The second interim dividend of approximately 5 to 7 pence in the pound will be paid on or before 3 January 2014 to all creditors with agreed claims. The Administrators are 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) 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 27 March 2013 the Administrators provided creditors with time cost analyses and narratives for the period 1 July 2012 to 31 December 2012 totalling £795 8k This remuneration was drawn on 17 April 2013

The time cost analyses and narratives for the period 1 January 2013 to 30 June 2013 were provided to creditors on 16 August 2013 Costs for this period total £956 4k, which represents 2,133 7 hours at an average hourly rate of £448 This remuneration was drawn on 25 September 2013

This brings the total amount of Administrators' remuneration drawn to date to £12 1m

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 2013 to 30 June 2013

Grade	Hours	Costs (£'000)
Partner	58	49
Director	444	286
Senior Manager	138	73
Manager	871	365
Senior Associate	504	157
Associate	119	26
Total	2,134	956

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

Grade	Hours	Costs (£'000)
Loan Portfolio Management	778	406
Strategy and Planning	287	125
Inter-company	466	195
Accounting and Treasury	243	70
Tax and VAT	64	40
Statutory and Compliance	120	45
Realisation of Assets	148	64
Central Services	28	11
Total	2,134	956

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

- £38 3m in respect of a distribution from various US affiliate debtors,
- £145 3m in respect of trust asset recoveries, and

-
- £11.2m in respect of principal and interest

The significant payments in the Period are

- £0.9m in respect of Administrators' remuneration, and
- £1m in respect of costs relating to the trust asset recoveries

Total cash held as at 22 September 2013 was
£369.5m (GBP equivalent)

Section 5 Receipts and payments account

Storm Funding Limited in Administration

	As at 22 September 2013			Movements from 23 March 2013 to 22 September 2013		As at 22 March 2013 (GBP equivalent) RESTATED at 22 September 2013		As at 22 March 2013 (GBP equivalent)	
	GBP (£)	EUR (€)	USD (\$)	000's	£	000's	£	000's	£
RECEIPTS									
Principal and interest	68,842	51,590	72		112,445	101,247	101,247	101,592	14,871
Corporation Tax repayment	14,871	-	-		14,871	14,871	14,871	14,871	1,031
VAT repayment	1,334	-	-		1,334	1,031	1,031	1,290	73,435
Coupon receipt	-	1,513	-		1,277	69,943	69,943	115,212	-
Intercompany debtors	-	-	17.3	238	108,274	38,331	38,331	-	-
PML and SPML legal costs recovered	149	-	-		149	149	149	149	149
Inter estate transfers	303,286	-	-		303,286	188,074	188,074	115,212	-
Trust asset recoveries	5,648	12,676	206	403	145,352	-	-	303,730	-
Receipts Grand Totals	394,130	65,779	379,713		686,988	383,258	303,730	307,680	
PAYMENTS									
Building and occupancy cost	637	-	-		637	1	636	636	8,989
Payroll and employee costs	9,010	-	-		9,010	21	8,989	50	80
Capstone share repurchase	50	-	-		50	-	50	3,013	7
Asset Management Company expenses	80	-	-		80	-	80	11,255	21
Legal fees	3,188	-	5		3,191	178	3,013	164	118,436
Insurance fees	7	-	-		7	-	7	-	-
Administrators' remuneration	12,134	-	-		12,134	879	11,255	-	-
Administrators' disbursements	24	-	-		24	3	21	-	-
Other professional fees	226	-	-		226	62	164	-	-
Inter estate transfers	-	64,779	378	157	291,041	176,540	114,501	-	-
Trust Asset fees	17	95	1,548		1,065	1,065	-	-	-
Payments Grand Totals	25,373	64,874	378,710		317,465	178,749	138,716	142,651	165,029
NET POSITION	368,757	905	3		369,523	204,509	165,015		
CASH BALANCES									
HSBC	2,340	905	3		3,106				
Money markets	366,417	-	-		366,417				
Total Cash	368,757	905	3		369,523				
Exchange rate as at 22 March 2013	EURO €1	GBP	0.8529						
	USD \$1	GBP	0.6562						
Exchange rate as at 22 September 2013	EURO €1	GBP	0.8443						
	USD \$1	GBP	0.6250						
Amounts include VAT where applicable									



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