

Storm Funding Limited – In Administration

Joint Administrators' progress report for the period
23 September 2008 to 22 March 2009

21 April 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the first progress report by the Joint Administrators (the "Administrators") of Storm Funding Limited ("Storm" or the "Company").

Creditors were sent the Administrators' proposals on 12 November 2008 which were approved at a meeting of creditors held on 27 November 2008.

This report provides details of the work we have undertaken and the progress we have made during the first six months of our appointment.

Objective 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 control the Company's portfolios of assets; and
- Realise these assets, including cash and asset and mortgage backed securities, on a managed basis.

Creditors' Committee

There were no requests from creditors for the formation of a Creditors' Committee.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are significant uncertainties regarding future net realisations. The timing and level of any dividend therefore remains uncertain.

What steps should be taken now?

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

Until there is more certainty regarding dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Administrators, please do so by completing and returning the attached statement of claim form.

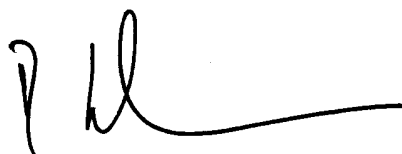
Administrators' remuneration

As there is no Creditors' Committee, the Administrators will in due course seek the approval of the general body of creditors to draw remuneration in respect of costs incurred in this Administration.

Future reports

The Administrators will next report to creditors in approximately six months.

Signed:



D Y Schwarzmann
Joint Administrator
Storm Funding Limited

Section 2: Background information

Background information

Storm is a wholly-owned subsidiary of Mable Commercial Funding Limited (“Mable”). It latterly held residential and commercial mortgage backed securities issued by Special Purpose Vehicles.

Mable was the holding company for a number of subsidiaries within the Lehman Brothers Group of Companies (the “Lehman Group”). It principally acted to manage the flow of investment funds to these subsidiaries from Lehman Brothers Holdings Inc. (“LBHI”) and Lehman Brothers International (Europe) (“LBIE”), the ultimate US registered parent of the Lehman Group and the main European broker - dealer respectively.

Events immediately preceding the Administrators’ appointments

On 15 September 2008, LBHI announced that it was preparing to file for Chapter 11 insolvency protection in the US, precipitating the appointment of Administrators to protect the business and assets of LBIE, amongst other members of the Lehman Group, on the same day.

Immediately upon their appointment the Administrators of LBIE met with certain directors and undertook a detailed review of the UK operations of the Lehman Group. As part of this review it was established that Storm could not repay its liabilities to Mable. Consequently, on 22 September 2008, the directors of Storm resolved to place the Company into Administration and the Administrators were appointed on 23 September 2008.

Business activities

Historically the mortgage backed securities held by the Mable Group of Companies (the “Mable Group”) were sold to third party investors, generating funds for the Mable Group.

Following the sharp contraction of liquidity in the financial system in 2007 the external market for these mortgage backed securities had effectively closed. As a consequence Storm purchased these securities with the ultimate objective of obtaining funding from the European Central Bank (“ECB”) for the Mable Group.

As at 23 September 2008 Storm’s main assets consisted of:

- Mortgage backed securities that were sold subject to a repurchase agreement (“repo”) to Lehman Brothers Bankhaus AG (“Bankhaus”), a German registered member of the Lehman Group and subsequently pledged to the ECB;
- Mortgage backed securities which had been repo’d to Bankhaus and not pledged to the ECB;
- Mortgage backed securities which were not repo’d; and
- Intercompany debtors and other assets.

Storm utilised employees seconded from Lehman Brothers Limited and principally operated from the Lehman Group's premises at 25 Bank Street, London E14 5LE, England.

Section 3: Joint Administrators' actions to date

Initial strategy

The Administrators worked closely with Storm's staff to gain control of its assets and to put in place a strategy to manage realisations in an orderly manner. The Administrators sought to:

- Understand the rights and obligations under the repo's;
- Clarify the ownership of a number of assets on Storm's balance sheet; and
- Understand the intercompany loan position.

Progress since 27 November 2008

Repo'd securities

The majority of Storm's mortgage backed securities were repo'd to Bankhaus which on 15 September 2008 became the subject of a moratorium to protect creditors, imposed by the German Financial Supervisory Authority. The rights and obligations of Storm and Bankhaus in respect of these repo's are purportedly defined in a draft General Master Repo Agreement ("GMRA") dated 15 August 2008.

Since 27 November 2008 we have sought to understand Storm's rights and obligations under the GMRA and have been in contact with Bankhaus regarding these rights. The Administrators are currently assessing the most appropriate method of valuing the securities in line with the GMRA between Storm and Bankhaus. Because of the size and complexity of the valuation exercise the Administrators expect this process may take a number of months to complete.

Non repo'd securities

In the absence of an account in its own name, it was initially understood that those securities held by Storm outside of any repo were held in a LBIE account at Euroclear. As our investigations have continued it would appear that certain securities may also be held by other members of the Lehman Group.

The Administrators have sought to identify the type, number and location of each security held by Storm. Where appropriate, the Administrators have begun to evidence their ownership of these securities held by third parties on behalf of Storm and have submitted

claims against certain insolvent estates in the Lehman Group.

Intercompany debtors

Storm has a number of debts due from other companies within the Lehman Group. The Administrators have been looking to recover intercompany loans where possible and, to date, Storm has submitted claims against two insolvent intercompany debtors with a total value of US\$8.2bn.

On a significant secured debt due from a Dutch Lehman Group company, we are working with current management to progress a controlled divestment of its assets for the benefit of all creditors.

As at 22 March 2009 the Administrators have recovered US\$6m in respect of intercompany loans and coupon payments from securities.

Outstanding matters

The Administrators will continue to:

- Seek an agreed valuation methodology for the assets subject to the repo with Bankhaus;
- Seek the return of assets held by other members of the Lehman Group on behalf of Storm;
- Submit claims against other members of the Lehman Group for balances due to Storm; and
- Continue to realise assets where possible and appropriate.

Section 4: Statutory and other information

| | |
|---|---|
| Court details for the Administration: | High Court of Justice, Chancery Division, Companies Court - Court Case 8210 of 2008. |
| Full name: | Storm Funding Limited |
| Trading name: | Storm Funding Limited |
| Registered number: | 2682306 |
| Registered address: | 25 Bank Street, London E14 5LE, England. |
| Company directors: | A Attia, D Gibb, PEJ Hansell, IM Jameson, AJ Rush and PA Sherwood. |
| Company secretary: | P Dave, M Smith and ESE Upton. |
| Shareholdings held by the directors and secretary: | None of the directors own shares in the Company. |
| Date of the Administration appointment: | 23 September 2008. |
| Administrators' names and addresses: | MJA Jervis, AV Lomas, SA Pearson and DY Schwarzmann of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, England. |
| Appointer's name and address: | The directors of the Company, 25 Bank Street, London E14 5LE, England. |
| Objective being pursued by the Administrators: | Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration). |
| Division of the Administrators' responsibilities: | 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 Joint Administrators, may be done by any or one or more of the persons for the time being holding that office. |
| Proposed end of the Administration: | The Administrators are not yet in a position to determine the most likely exit routes from the Administration and wish to retain the options available to them. |
| Estimated dividend for unsecured creditors: | It is too early to estimate the likely dividend for unsecured creditors. |
| Estimated values of the prescribed part and Storm's net property: | There is no prescribed part in this matter. |
| Whether and why the Administrators intend to apply to court under Section 176A(5) IA86: | Not applicable. |
| The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000): | The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings. |

Section 5: Financial information

Statement of Affairs

The Directors have provided their Statement of Affairs (the “Statement”). This Statement is not attached to the progress report as disclosure of the information therein may impact adversely upon future realisations.

Administrators’ remuneration

By way of context, the manner in which Administrators’ remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the “Rules”).

In accordance with the Proposals, as a Creditors’ Committee was not formed it is now for creditors to agree the level of the Administrators’ remuneration and Category 2 disbursements. Full details of the Administrators’ time costs will be provided to creditors in due course.

The Administrators will only draw remuneration when appropriate approval has been given and when funds are available to do so.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2009 is set out in section 6 to this report.

Significant receipts in the period covered by this report are:

- Principal and interest receipt of US\$3.9m; and
- Coupon receipt of US\$2m.

There were no payments in the period covered by this report.

Section 6: Receipts and payments

| | | | | As at 22 Mar 2009 |
|----------------------------------|--------------|----------|--------------|----------------------------|
| | GBP | US\$ | EUR | Total (US\$ Equivalent) |
| | 000's | 000's | 000's | 000's |
| <u>Receipts</u> | | | | |
| Principal and interest | 2,733 | - | - | 3,945 |
| Coupon receipt | | | 1,513 | 2,051 |
| Total receipts for period | 2,733 | - | 1,513 | 5,996 |
| | | | | |
| Net position | 2,733 | - | 1,513 | 5,996 |
| | | | | |
| <u>Held as</u> | | | | |
| HSBC | 2,733 | | 1,513 | 5,996 |
| Total Cash | 2,733 | - | 1,513 | 5,996 |

Note:

US\$ equivalent is for information purposes only.
 Rates used for conversion are Financial Times
 rates on 22 Mar 2009:
 1 GBP = 1.4433 US\$,
 1 € = 1.3566 US\$