

Storm Funding Limited – In Administration

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

22 October 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

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

Creditors will have received the Administrators' proposals dated 12 November 2008 which were approved at a meeting of creditors held on 27 November 2008 and the Administrators' first progress report dated 21 April 2009.

This second progress report provides an update on the work the Administrators have undertaken since their appointment, with particular focus on the progress made in the six months to 22 September 2009.

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 asset and mortgage backed securities, and other debtors 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 Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

Until there is more certainty regarding the 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.

Extension of the Administration

On the application of the Administrators the High Court has made an Order extending the period of the Administration to 30 November 2010.

Future reports

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

Signed:



D Y Schwarzmann
Joint Administrator
Storm Funding Limited

Section 2: Joint Administrators' actions to date

Business activities

Storm is a wholly owned subsidiary of Mable Commercial Funding Limited.

Storm principally held residential and commercial mortgage backed securities issued by special purpose vehicles and also provided financing across the Lehman Brothers group.

Storm utilised employees seconded from Lehman Brothers Limited and principally operated from the Lehman Group premises at 25 Bank Street, London.

Progress to date

The Administrators have continued with the strategy in their Proposals as approved by creditors on 27 November 2008

Below is a summary of progress made during the period 23 March 2009 to 22 September 2009.

Repo'd securities

As stated in the first progress report dated 21 April 2009, the majority of Storm's mortgage backed securities were repo'd to Lehman Brothers Bankhaus AG ("Bankhaus").

On 15 September 2008 Bankhaus 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.

As previously advised, the size and complexity of the task of valuing the securities in line with the GMRA is considerable. The Administrators continue to gather information to enable them to evidence Storm's claim as a creditor of Bankhaus.

Non-repo'd securities

The Administrators continue to identify the type, number and location of each security held by Storm in order to enable them to evidence Storm's claim as a creditor of other Lehman insolvent entities.

Inter-company debtors

Storm continues to lodge claims against other insolvent Lehman entities in advance of any bar-dates imposed for the submission of claims. Since the last progress report, Storm has submitted claims against two insolvent inter-company debtors with a total value of US\$977m. Each claim requires significant forensic work to evidence as they cover complex large value international transactions.

Inter-company debtors – Dutch debtor

The Administrators have realised €35.8m from the controlled divestment of the assets of a Dutch debtor. Further realisations, the value of which are dependent on market conditions, are anticipated in the first quarter of 2010. This is the culmination of over six month's negotiations.

Inter-company debtors – Project Eagle

Storm provided a loan to a Lehman group company, which was used to fund the origination of mortgage loans (the "Mortgage Assets"). These Mortgage Assets were pledged as security against the loan. The Administrators have provided input and oversight to a sales process, known as Project Eagle, that included the Mortgage Assets.

Following receipt of final bids and the conclusion of a hold valuation for the Mortgage Assets, it was determined that they should be held and run-off within the Administration using a Lehman owned servicing platform, Capstone Mortgage Services Limited ("Capstone").

In addition to the Mortgage Assets, Storm also has a number of other inter-company receivables, whose value is dependant upon Capstone servicing the underlying mortgage loans. To ensure that the value of these inter-company receivables is preserved and the value of the Mortgage Assets maximised, the Administrators have worked closely with the management of Capstone to secure its ongoing viability, including agreeing to provide future working capital and supporting a restructuring initiative.

Between 23 March 2009 and 22 September 2009, the Administrators have collected loan interest and principal sums totalling c£14.4m.

Section 2: Joint Administrators' actions to date

Future strategy

The Administrators will continue to:

- Seek the return of Storm's assets held by other Lehman entities;
- Evidence and submit claims against other members of the Lehman Group for balances due to Storm;
- Finalise the hold structure for the Mortgage Assets, including:
 - finalise the restructuring of Capstone and oversee the incorporation of the Storm owned Asset Management company; and
 - finalise contractual arrangements between the Asset Management company and other asset holding group entities seeking asset management services;
- Pro-actively monitor asset performance where a hold strategy has been adopted (including the Mortgage Assets) with the view for future sales; and
- Realise assets, where possible.

Extension of the administration

On 28 July 2009 the Administrators made an application to Court to extend the period of the administration. The Court made an Order extending the administration until 30 November 2010.

The application was made for the following reasons:

- There are various matters in the estate that, in the Administrators' view including asset realisations, would be better dealt with in administration than in an alternative insolvency procedure;
- Entering into an insolvency process other than administration has the effect of breaking the Group of Companies for tax purposes. The Administrators are aware that there are potential tax losses within the Group which may have value to this estate, and which would be lost if the Company entered into another insolvency process.
- The Administrators are not yet in a position to determine the most appropriate exit route from administration.

Section 3: 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 secretaries:	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.
Details of any extensions of the initial period of appointment	The Court has granted an extension of the administration to 30 November 2010.
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 4: 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 adversely impact 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' remuneration will be provided to creditors shortly following this report.

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 September 2009, and a cumulative total since commencement of the administration, is set out in section 5 to this report.

Significant receipts in the period covered by this report are:

- US\$24.1 in respect of principal and interest receipts; and
- US\$52.9m in respect of the repayment of a secured loan with a Dutch intercompany debtor.

Significant payments in the period covered by this report are:

- Building and occupancy costs of £0.45m;
- Salary and payroll costs of £0.77m; and
- Legal fees of £1m.

Total cash held as at 22 September 2009 was US\$79.5m.

Section 5: Receipts and payments

	As at 22 September 2009			As at 22 March 2009	Movements
	GBP (£'000)	EUR (€'000)	Total (USD Equivalent) (\$'000)	Total (USD Equivalent) (\$'000)	(USD Equivalent) (\$'000)
RECEIPT					
Principal and interest	17,128	35,772	80,964	3,945	77,019
Coupon receipt	-	1,513	2,237	2,051	186
Receipts Total	17,128	37,285	83,201	5,996	77,205
PAYMENT					
Building and occupancy cost	452	-	740	-	740
Payroll and employee costs	769	-	1,260	-	1,260
Legal fees	1,056	-	1,729	-	1,729
Office holders' category 1 disbursements	2	-	3	-	3
Other professional fees	2	-	3	-	3
Payments Total	2,281	-	3,736	-	3,736
NET POSITION	14,847	-	79,465	5,996	73,469
CASH BALANCES					
HSBC	1,045	2,723	5,739		
Money markets	13,802	34,562	73,727		
Total Cash	14,847	37,285	79,465		

US\$ equivalent is for information purposes only. Rates used for conversion are Financial Times rates on 22 September 2009:

1 GBP = 1.6374 US\$,

1 € = 1.4793 US\$

Receipts and payments are inclusive of VAT where applicable.