

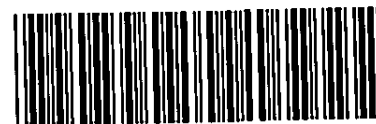
Company Registration Number: 06582771

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION
ON 1 MAY 2008 TO 30 NOVEMBER 2008**

FRIDAY



LPKSVJ77

LD4

16/04/2010

195

COMPANIES HOUSE

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

CONTENTS	PAGE
Officers and professional advisers	2
The Directors' report	3-10
Independent auditors' report to the members of Excalibur Holdings Limited	11-12
Group Income statement	13
Group Statement of changes in equity	13
Company Statement of changes in equity	14
Group Balance sheet	15
Company Balance sheet	16
Group Cash flow statement	17
Company Cash flow statement	18
Notes to the financial statements	19 to 34

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Directors	Mr M H Filer Mr M McDermott Wilmington Trust SP Services (London) Limited
Company Secretary	Wilmington Trust SP Services (London) Limited
Company Number	06582771
Registered Office	c/o Wilmington Trust SP Services (London) Limited Fifth Floor 6 Broad Street Place London EC2M 7JH
Note Trustee	LaSalle Global Trust Services Limited (formerly LaSalle Trustees Limited) 5 Canada Square London E14 5AQ
Principal Paying Agent/Custodian/ Account Bank/Calculation Agent/ Collateral Administrator	Bank of America National Association (London Branch) 5 Canada Square London E14 5AQ
Servicer & Special Servicer	Hatfield Philips International Limited 34 th Floor 25 Canada Square London E14 5LB
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

The directors present their report and the audited financial statements of Excalibur Holdings Limited (the "Company") and its subsidiaries Excalibur Funding No 1 plc and Excalibur Funding No 1 Options Limited for the period from incorporation on 1 May 2008 to 30 November 2008

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company's principal activity is that of a special purpose company whose only activity is to hold an investment in Excalibur Funding No 1 plc and Excalibur Funding No 1 Options Limited. The Company was incorporated as a limited company in England and Wales on 1 May 2008.

The principal activity of the Group during the period was to enter into a securitisation transaction.

In accordance with the terms of a Prospectus dated 22 May 2008, Excalibur Funding No 1 plc issued €2,166,541,000 Class A Notes due April 2054 and €722,181,000 Class B Notes due April 2054, (together the "Notes").

Having issued the Notes, Excalibur Funding No 1 plc applied the proceeds of the issuance primarily for the purposes of purchasing from Lehman Brothers Financing Ltd ("LBF"), Lehman Commercial Paper Inc, United Kingdom Branch ("LCPI"), Lehman Brothers Bankhaus AG, London Branch ("LBB"), Lehman Brothers International (Europe) ("LBIE"), LB RE Financing No 3 Ltd ("LBRE") and Storm Funding Limited ("SFL"), (together the "Sellers"), certain debt instruments, each of which, according to their terms, entitles the holders to payments of interest and repayments of principal (the "Initial Collateral Debt Obligations").

The Initial Collateral Debt Obligations are made up of Real Estate Senior Loans, Real Estate Mezzanine Loans, B Notes and CMBS Securities.

In addition to the Notes, Excalibur Funding No 1 plc may at any time issue Additional Notes, provided that, among other things, the issuance of Additional Notes does not result in a downgrade of the then current rating ascribed to the Class A Notes then outstanding.

In the event that the Issuer issues Additional Notes, the proceeds of such issuance will be used by it to purchase further debt instruments ("Additional Collateral Debt Obligations") similar to the Initial Collateral Debt Obligations from the Sellers or from other entities from time to time.

In addition to the purchase of Additional Collateral Debt Obligations, Excalibur Funding No 1 plc may, from time to time and subject to certain conditions:

- (a) sell Collateral Debt Obligations and apply the proceeds of sale to purchase similar assets, and
- (b) use principal proceeds to purchase similar assets,

Any such action shall be taken by Excalibur Funding No 1 plc at the direction of the holders of the Class B Notes (the "Class B Noteholders") in accordance with the certain conditions and shall only be taken if such action does not result in a downgrade or withdrawal of the then current rating ascribed to the Notes.

The Collateral Debt Obligations were sold to Excalibur Funding No 1 plc pursuant to loan sale agreements under which the Sellers gave various representations and warranties about the Collateral Debt Obligations, breach of which may give Excalibur Funding No 1 plc the right to sell back the affected Collateral Debt Obligation to the Seller thereof for a price determined in accordance with the relevant Loan Sale Agreement.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (continued)

The payment of interest on and the repayment of principal of each of the Collateral Debt Obligations is funded, directly or indirectly, by income generated by certain specific commercial properties such as office properties, industrial properties, land development sites, data centres, multi-family properties and retail properties located in a variety of European countries. The income generated by these properties typically takes the form of rent paid by the tenants occupying those properties. However, income may also be generated by the sale or refinancing of those properties. All Collateral Debt Obligations are thus related, directly or indirectly, to commercial real estate.

Any failure of a commercial property to generate the income expected from it, howsoever that failure arises, may result in a failure to pay interest on or repay the principal of the related Collateral Debt Obligation by its obligors. This, in turn, may result in a failure on the part of Excalibur Funding No 1 plc to pay interest on or repay the principal of the Notes. The ability of Excalibur Funding No 1 plc to pay interest on and repay the principal of the Notes is, therefore, substantially dependant on the performance of the commercial properties backing the Collateral Debt Obligations and any investor in the Notes may be impacted by variations in such performance.

The exercise by Excalibur Funding No 1 plc of its rights in relation to certain of the Collateral Debt Obligations is undertaken by Hatfield Phillips International Limited (in its capacity as the "Hatfield Servicer") and the exercise by Excalibur Funding No 1 plc of its rights in relation to the remainder of the Collateral Debt Obligations is undertaken by LNR Asset Services Limited (the "LNR Servicer" and, together with the Hatfield Servicer, the "Servicers"). The Servicers' respective rights and obligations, which vary according to the nature of each Collateral Debt Obligation that it services, are regulated by a servicing agreement entered into between Excalibur Funding No 1 plc and the Servicers though certain actions are to be taken by the relevant Servicer only upon receipt of directions from the Class B Noteholders.

In addition to the functions performed by the Servicers, certain administrative functions in respect of the Collateral Debt Obligations are or have been performed on behalf of the Company by Bank of America National Association (London Branch) (the "Collateral Administrator") and by Lehman Brothers International (Europe) (the "Administrative Agent").

The Class B Noteholders have various discretions in relation to selling and purchasing Collateral Debt Obligations and various rights to direct the Servicers in connection with the performance of their duties relating to Collateral Debt Obligations. The way in which these discretions and direction rights are exercised may impact on Excalibur Funding No 1 plc's ability to pay interest on and repay the principal of the Notes.

Lehman Brothers and certain of its subsidiaries

Lehman Brothers International (Europe) was appointed as the Administrative Agent to act as the agent of the Excalibur Funding No 1 plc in relation to the purchase and sales of Collateral Debt Obligations, which take place at the direction of the Class B Noteholders, and in relation to certain other matters. On 15 September 2008 Lehman Brothers International (Europe) went into Administration.

Lehman Brothers Special Financing Inc. was appointed as the Hedge Provider to enter into the Interest Rate Swap Transactions, the Basis Swap Transactions and the Currency Swap Transactions with Excalibur Funding No 1 plc. On 15 September 2008 Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (continued)

Lehman Brothers and certain of its subsidiaries (continued)

Lehman Brothers Holdings, Inc. was appointed as the Hedge Guarantor to act as the guarantor of the obligations of the Hedge Provider under the Interest Rate Swap Transactions, the Basis Swap Transactions and the Currency Swap Transactions. On 15 September 2008 Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. This constituted an event of default under the terms of the Hedging Arrangements and as a consequence Excalibur Funding No 1 plc has made no further payments under the terms of the Hedging Arrangements. Lehman Brothers Holdings Inc. was also downgraded below the required minimum rating requirements required by the transaction documentation and was therefore asked to post collateral. No such funds collateral have been received by Excalibur Funding No 1 plc at the date of this report. The Group has engaged J C Rathbone Associates Limited ("JCRA") to advise it as to its approach in relation to the defaulted Hedging Transactions. JCRA has produced a report which sets out its advice to the Group and the Group has delivered a copy of this advice to Noteholders in order to obtain directions from them. In its report JCRA has advised that the Group terminates the Hedging Transactions, makes a liquidated claim against the Hedge Provider and Hedge Guarantor in respect of such terminated Hedging Transactions, does not replace any of the Hedging Transactions at present, approaches the Hedge Provider and Hedge Guarantor with a view to negotiating an agreed settlement of the liquidated claim and considers some risk mitigation against rising interest rates and further adverse currency movements.

Lehman Commercial Paper Inc., United Kingdom Branch was appointed as the Advancing Agent to enter into the Advancing Agency Agreement with Excalibur Funding No 1 plc under which it, subject to certain conditions and limitations, will make payment to Excalibur Funding No 1 plc of amounts that Excalibur Funding No 1 plc is scheduled to receive but does not receive under the Collateral Debt Obligations. On 5 October 2008 Lehman Commercial Paper Inc., filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code.

As a result of the insolvency proceedings of certain Lehman Brothers entities the Company, the Note Trustee, and the Servicer where applicable, have, in accordance with the relevant documentation, sought to terminate and find replacements for the roles undertaken by the affected Lehman Brothers entities. This process is still continuing at the date of this report. On 1 June 2009 Excalibur Funding No 1 plc terminated the role of Lehman Brothers Commercial Paper Inc., London Branch as Advancing Agent but to date has not been able to obtain a replacement.

Excalibur Funding No 1 plc has made all relevant claims against the US Lehman Brothers entities for which a deadline for filing claims was set by the US Bankruptcy Court and continues to monitor the insolvency proceedings of the Lehman Brothers entities in other jurisdictions.

Results

The results for the period and the Groups financial position at the end of the period are shown in the attached financial statements. The loss on ordinary activities after taxation for the period was €39,739,714. The loss includes an impairment charge of €20,457,857 against the underlying Collateral Debt Obligations at the end of the period. As discussed further in the Directors' report, the financial statements do not include a number of adjustments for matters that the Directors have been unable to determine with sufficient reliability.

The interest expense exceeded interest income by €12,131,070 during the period primarily due to the rolling up of €11,837,304 of interest on the Class B Notes falling due for payment in October 2008 which remained outstanding at 30 November 2008.

The directors have not recommended a dividend.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW (continued)

Coverage tests

Under the terms of the Prospectus, certain coverage tests have to be carried out at each Note interest determination date. Should the coverage tests fail then interest on the Class B notes is not paid but rolled up and carried forward.

The results for the coverage tests available to the date of this report are as follows:

Class A par value test date	Minimum	Actual	Spread	Result
23 July 2008	110%	131.66%	21.66%	Pass
22 October 2008	110%	131.69%	21.69%	Pass
23 January 2009	110%	126.52%	16.52%	Pass
23 April 2009	110%	124.17%	14.17%	Pass
23 July 2009	110%	118.44%	8.44%	Pass
22 October 2009	110%	114.68%	4.68%	Pass
28 January 2010	110%	108.52%	(1.48)%	Fail

Class A Interest coverage test date	Minimum	Actual	Spread	Result
23 July 2008	110%	233.88%	123.88%	Pass
22 October 2008	110%	45.22%	(64.78)%	Fail
23 January 2009	110%	70.71%	(39.29)%	Fail
23 April 2009	110%	104.62%	(5.38)%	Fail
23 July 2009	110%	136.84%	26.84%	Pass
22 October 2009	110%	84.52%	(25.48)%	Fail
28 January 2010	110%	252.32%	142.32%	Pass

STRATEGY AND FUTURE DEVELOPMENTS

Due to repayments decreasing the principal value of the loans each period, the deemed loan, loan notes, interest income and interest expense are expected to decrease in future years. The rate of decrease is dependent on future redemptions and further advances, if any. The Group's responsibility to make cash payments under the terms of the Prospectus is limited to the funds available to it. The Group has no recourse to any other assets.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

The Group's financial instruments, comprise loans, cash and cash equivalents, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The main purpose of the interest-bearing borrowings is to finance the acquired Collateral Debt Obligation portfolio.

The Group has also entered into derivative transactions. The purpose of such transactions is to manage the interest rate and currency risk arising from the Group's operations and its sources of finance.

The Board reviews and agrees policies for managing risks arising on the Group's financial instruments and they are summarised below:

Interest rate risk and currency risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. Currency risk exists where assets and liabilities are denominated in more than one currency. The Group uses interest rate swaps and currency swaps to mitigate its exposure to interest rate risk.

The Hedging Arrangements for currency and interest rate risk are comprised of:

- (a) transactions under which interest payments in respect of Collateral Debt Obligations which are paid by reference to a fixed rate of interest or a weighted average reference rate will be swapped to a floating rate of interest (the "Interest Rate Swap Transactions"),

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (continued)

Interest rate risk and currency risk (continued)

- (b) transactions under which interest payments in respect of Collateral Debt Obligations which are paid by reference to a particular day-count fraction basis or which pay interest less frequently than quarterly will be swapped to a rate of interest calculated by reference to the day-count fraction basis applicable to the Notes or, as applicable, which is paid quarterly (the "Basis Swap Transactions"), and
- (c) transactions under which payments in respect of Collateral Debt Obligations which are paid in a currency other than Euro will be swapped into Euro (the "Currency Swap Transactions")

The Hedging Arrangements were provided by Lehman Brothers Special Financing Inc (the "Hedge Provider") The obligations of the Hedge Provider under the Hedge Arrangements were being guaranteed by Lehman Brothers Holdings Inc (the "Hedge Guarantor") Excalibur Funding No 1 plc entered into Hedging Arrangements on an "asset by asset" basis, so that Hedging Arrangements in respect of each Collateral Debt Obligation that required hedging were in place The position of the Group with respect to such Hedging Arrangements has been set out more fully in the section entitled "Principal Activities and Business Review" above

Liquidity risk

Liquidity risk arises where the funds received by the Group are insufficient to meet the debts of the Group as they fall due for payment on the relevant interest payment dates The availability of funds is determined on set determination dates under the terms of the securitisation by the cash manager All payments are made in accordance with a pre-defined priority of payments schedule and the Group is structured so that it is only liable to pay amounts falling due to the extent that it has received funds The Group has also entered into certain Liquidity Arrangements

The Liquidity Arrangements are comprised of a facility provided to Excalibur Funding No 1 plc under an agreement (the "Advancing Agency Agreement") pursuant to which Lehman Commercial Paper Inc, United Kingdom Branch (the "Advancing Agent") was obliged, subject to certain conditions and certain limitations, to make payments to Excalibur Funding No 1 plc in the event that Excalibur Funding No 1 plc does not receive scheduled payments of interest that it should have received under the terms of the Collateral Debt Obligations The Liquidity Arrangements are intended to enable Excalibur Funding No 1 plc to pay interest as required to the Class A Noteholders and to pay amounts to the Group's creditors which are payable in priority to the Class A Noteholders The amount available to Excalibur Funding No 1 plc under the Advancing Agency Agreement may be increased, from time to time, to reflect the acquisition of Additional Collateral Debt Obligations and Substitute Collateral Debt Obligations, as well as the issuance of Additional Notes The terms of the Recoverability Determination in the Liquidity Arrangements have meant that Excalibur Funding No 1 plc has not requested any payments from the Advancing Agent to date

Due to insolvency proceedings of Lehman Commercial Paper Inc Excalibur Funding No 1 plc has been exposed to the inability of Lehman Commercial Paper Inc to make funds available under the Advancing Agency Agreement

Credit risk

The principal credit risk to the Group is that the borrowers will not be able to meet their obligations as they fall due on the loans underlying Collateral Debt Obligations acquired by the Group The amount and timing of receipt of the principal and interest in respect of the Collateral Debt Obligations will depend upon the detailed terms of the documentation relating to each of them, on whether or not any obligor thereunder defaults in its obligations and the proceeds realised through enforcing security granted by obligors under the Collateral Debt Obligations Because all Collateral Debt Obligations are serviced out of cash-flow generated by commercial real estate assets, the performance of the Collateral Debt Obligations will depend on the cash-flow-generating ability of those assets

At 30 November 2008, the Collateral Debt Obligation portfolio had a carrying value of €2,766,085,447 including a provision for impairment of €20,457,857 As discussed further below, the financial statements do not include a number of adjustments for matters that the Directors have been unable to determine with sufficient reliability

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (continued)

Counterparty Risk

The Hedging Arrangements involve Excalibur Funding No 1 plc entering into contracts with the Hedge Provider or, as the case may be, the Seller of a Collateral Debt Obligation novating in favour of the Excalibur Funding No 1 plc its rights and obligations under a corresponding contract with the Hedge Provider Pursuant to such contracts, the Hedge Provider will agree to make payments to Excalibur Funding No 1 plc under certain circumstances Excalibur Funding No 1 plc was exposed to the credit risk of the Hedge Provider in respect of any such payments The obligations of the Hedge Provider were be guaranteed by the Hedge Guarantor Accordingly, Excalibur Funding No 1 plc was also exposed to the credit risk of the Hedge Guarantor Given that the Hedge Provider has defaulted and become unable to perform due to its insolvency, Excalibur Funding No 1 plc has not received payments it would otherwise have been entitled to from the Hedge Provider to cover its foreign exchange and interest rate exposure The position of the Group with respect to such Hedging Arrangements has been set out more fully in the section entitled "Principal Activities and Business Review" above

The Liquidity Arrangements involved the Group entering into contracts with the Advancing Agent Due to insolvency proceedings of the Advancing Agent the Group has been exposed to the inability on the part of the Advancing Agent to make funds available under the Advancing Agency Agreement, which, in any event, was subject to the Advancing Agent undertaking a Recoverability Determination

As discussed above, Lehman Brothers Special Financing Inc, Lehman Brothers Holdings Inc and Lehman Commercial Paper Inc, United Kingdom Branch all filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code on 15 September 2008 and 5 October 2008 respectively The efforts which are continuing at the date of this report to find replacements for the roles these entities undertook are more fully set out in the section entitled "Principal Activities and Business Review" above

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Group's strategy are subject to a number of risks The key financial risks affecting the Group and its management are set out in Note 16 to the financial statements

DIRECTORS

The directors who served the Company during the period were as follows

Mr M H Filer	(appointed 1 May 2008)
Mr M McDermott	(appointed 1 May 2008)
Wilmington Trust SP Services (London) Limited	(appointed 1 May 2008)

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 30 November 2008

DIFFICULTIES IN OBTAINING INFORMATION

The Directors have faced severe difficulties in obtaining information in relation to this securitisation transaction following the collapse of Lehman Brothers As a result these financial statements have taken a significant time to prepare and the Directors have been unable to determine with sufficient reliability the following matters

- the fair values of the deemed loan to originator and the Class A and Class B floating rate loan notes on the date they were issued As a result the Directors were unable to determine the appropriate initial carrying amount of these assets and liabilities nor the appropriate effective interest rate to be applied in accounting for these instruments subsequently In preparing the financial statements, the Directors have used the principal amounts as the initial carrying amounts and for the purposes of determining effective interest rates, although the initial fair values were likely to be significantly less than these amounts,

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

DIFFICULTIES IN OBTAINING INFORMATION (continued)

- the amount of impairment losses to be recognised as at 30 November 2008 in respect of the deemed loan to the originator In preparing the financial statements, the Directors have recognised impairment losses in respect of Collateral Debt Obligations that had defaulted as at that date, but it is possible that further impairment losses would have been identified if sufficient information was available,
- the fair values of the derivative contracts as at 30 November 2008 In preparing the financial statements, the Directors have assumed the fair values to be nil although they may have determined this to be a different amount if sufficient information was available, and
- the fair values of the deemed loan to the originator and the Class A and Class B floating rate loan notes as at 30 November 2008 In preparing the financial statements, these amounts have not been disclosed

Further work is being progressed on these matters in order for them to be included within the financial statements of subsequent periods

GOING CONCERN

The financial statements have been prepared on a going concern basis as, in the opinion of the directors, the Group will be able to meet its obligations as they fall due for payment in accordance with the terms of the securitisation documentation

The loan notes issued by Excalibur Funding No 1 plc are non-recourse and their terms as set out in Note 14 to the financial statements are such that amounts due are only payable to the extent that there are sufficient receipts from Excalibur Funding No 1 plc assets (including derivatives)

As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook It is the intention of the Directors of the Company to continue operations until such time as the amounts due from the underlying Collateral Debt Obligation portfolio has been fully realised

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

POST BALANCE SHEET EVENTS

Since the period end the Group, the Note Trustee, and the Servicer where applicable, have sought to terminate and find replacements for the roles undertaken by the Lehman Brothers entities which are in Chapter 11 or Administration proceedings On 1 June 2009 Excalibur Funding No 1 plc successfully terminated the role of Lehman Commercial Paper Inc , London Branch as Advancing Agent but to date has been unable to obtain a replacement In addition, Excalibur Funding No 1 plc has made all relevant claims against the US Lehman Brothers entities for which a deadline for filing claims was set by the US Bankruptcy Court and continues to monitor the insolvency proceedings of the Lehman Brothers entities in other jurisdictions

The Group has engaged JCRA to advise it as to its approach with respect to the defaulted Hedging Arrangements JCRA has produced a report setting out its advice to the Group and the Group has delivered a copy of this advice to Noteholders in order to obtain directions from them In its report JCRA advised that Excalibur Funding No 1 plc terminates the Hedging Transactions, makes a liquidated claim against the Hedge Provider and Hedge Guarantor in respect of such terminated Hedging Transactions, does not replace any of the Hedging Transactions at present, approaches the Hedge Provider and Hedge Guarantor with a view to negotiating an agreed settlement of the liquidated claim and considers some risk mitigation against rising interest rates and further adverse currency movements

Since the year end the level of defaulted obligations has increased with a projected shortfall of €446,031,217 at 25 January 2010, the latest date for which information is available

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

THE DIRECTORS' REPORT (continued)

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial period. Under the law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In preparing the financial statements, the directors are required to

- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- Provide additional disclosures when compliance with specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance,
- State the company has complied with IFRS, subject to any material departures discussed and explained in the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Whilst every effort has been made by the Directors to prepare financial statements that give a true and fair view, as set out in Note 1 there have been significant limitations in the Directors' ability to do this.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors confirms that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Ernst & Young LLP were appointed by the directors as the first auditors of the Company. A resolution to re-appoint Ernst & Young LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

By order of the Board



Mark Filer
On behalf of Wilmington Trust SP Services (London) Limited
Director
15 April 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

We have audited the Group and parent company financial statements (the "financial statements") of Excalibur Funding No 1 Holdings Limited (the "Company") for the period from incorporation on 1 May 2008 to 30 November 2008, which comprise the Group Income Statement, the group and parent company Statement of Changes in Equity, the Group and parent company Balance Sheets, the Group and parent company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, as described in Note 1 the directors have faced severe difficulties in obtaining information in relation to the securitisation transaction entered into by the company's subsidiaries following the collapse of Lehman Brothers and therefore the evidence available to us was limited. In particular, the directors have been unable to determine with sufficient reliability

- the fair values of the deemed loan to originator and the Class A and Class B floating rate loan notes on the date they were issued. As a result they were unable to determine the appropriate initial carrying amount of these assets and liabilities nor the appropriate effective interest rate to be applied in accounting for these instruments subsequently. In preparing the group financial statements, the directors have used the principal amounts as the initial carrying amounts and for the purposes of determining effective interest rates, although the initial fair values were likely to be significantly less than these amounts,

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED (Continued)

- the amount of impairment losses to be recognised as at 30 November 2008 in respect of the deemed loan to the originator In preparing the group financial statements, the directors have recognised impairment losses in respect of Collateral Debt Obligations that had defaulted as at that date, but it is possible that further impairment losses would have been identified if sufficient information was available,
- the fair values of the derivative contracts as at 30 November 2008 In preparing the group financial statements, the directors have assumed the fair values to be nil although they may have determined this to be a different amount if sufficient information was available, and
- the fair values of the deemed loan to the originator and the Class A and Class B floating rate loan notes as at 30 November 2008 In preparing the group financial statements, these amounts have not been disclosed

As a result of this we have been unable to obtain sufficient appropriate audit evidence concerning the carrying amounts of the deemed loan to the originator, the Class A and Class B floating rate notes, related accrued interest balances and derivative financial instruments and the amounts included in the income statement in respect of interest income, interest expense, impairment of loan to originator and fair value movements in derivative financial instruments Because of the significance of these items, we have been unable to form a view on the group financial statements

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion: including disclaimer on view given by the group financial statements

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the group financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 November 2008 and of its loss for the period then ended, and
- have been properly prepared in accordance with the Companies Act 1985


In respect solely of the limitation of our work referred to above

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit, and
- we were unable to determine whether proper accounting records have been maintained

In our opinion the parent company financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent company's affairs as at 30 November 2008, and
- have been properly prepared in accordance with the Companies Act 1985

Notwithstanding our disclaimer on the view given by the group financial statements, in our opinion the information given in the Directors' Report is consistent with the financial statements


Ernst & Young LLP
1 More London Place
London
SE1 2AF
Dated 15 April 2010

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

GROUP INCOME STATEMENT

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

	Note	1 May 2008 to 30 November 2008 €
Interest income	3	76,817,048
Interest expense	4	<u>(88,948,118)</u>
Net interest expense		(12,131,070)
Other income	5	15,925
Fair value movements in derivative financial instruments	11	-
Loss on disposal of underlying collateral to loan to originator		(5,807,868)
Impairment of loan to originator		(20,457,857)
Administrative expenses	6	<u>(1,355,500)</u>
Loss before tax for the period		(39,736,370)
Taxation	7	<u>(3,344)</u>
Loss for the period	13	<u>(39,739,714)</u>

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

	Share Capital	Retained Earnings	Total
	€	€	€
Shares issued	1	-	1
Loss for the period	<u>-</u>	<u>(39,739,714)</u>	<u>(39,739,714)</u>
Balance at 30 November 2008	<u><u>1</u></u>	<u><u>(39,739,714)</u></u>	<u><u>(39,739,713)</u></u>

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

	Share Capital	Retained Earnings	Total
	€	€	€
Shares issued	1	-	1
Loss for the period	<u>-</u>	<u>(3,343)</u>	<u>(3,343)</u>
Balance at 30 November 2008	<u><u>1</u></u>	<u><u>(3,343)</u></u>	<u><u>(3,342)</u></u>

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 30 NOVEMBER 2008

	Note	2008 €
Non-current Assets		
Deemed loan to the originator	9	<u>2,766,085,447</u>
Total non-current assets		<u>2,766,085,447</u>
Current Assets		
Other assets	10	10,439,385
Cash and cash equivalents	11	<u>11,479,102</u>
Total current assets		<u>21,918,487</u>
Total assets		<u>2,788,003,934</u>
Equity		
Issued capital	13	1
Retained earnings	13	<u>(39,739,714)</u>
Total equity	13	<u>(39,739,713)</u>
Non-current Liabilities		
Floating rate notes	14	<u>2,166,541,000</u>
Total non-current liabilities		
Current Liabilities		
Taxation	7	3,344
Floating rate notes	14	635,155,102
Other liabilities	15	<u>26,044,201</u>
Total current liabilities		<u>661,202,647</u>
Total liabilities		<u>2,827,743,647</u>
Total equity and liabilities		<u>2,788,003,934</u>

These financial statements of Excalibur Holdings Limited, Company Registration 06582771 on pages 13 to 34 were approved and authorised for issue by the directors on 15 April 2010 and signed on their behalf by



Mark Eiler
On behalf of Wilmington Trust SP Services (London) Limited
Director

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 30 NOVEMBER 2008

	Note	2008 €
Non-current Assets		
Investment in subsidiaries	8	<u>1</u>
Total non-current assets		<u>1</u>
Current Assets		
Cash and cash equivalents	11	<u>1</u>
Total current assets		<u>1</u>
Total assets		<u><u>2</u></u>
Equity		
Issued capital	13	1
Retained earnings	13	<u>(3,343)</u>
Total equity	13	<u><u>(3,342)</u></u>
Current Liabilities		
Taxation	7	<u>3,344</u>
Total current liabilities		<u><u>3,344</u></u>
Total liabilities		<u><u>3,344</u></u>
Total equity and liabilities		<u><u>2</u></u>

These financial statements of Excalibur Holdings Limited, Company Registration 06582771 on pages 13 to 34 were approved and authorised for issue by the directors on 15 April 2010 and signed on their behalf by



Mark Eller
On behalf of Wilmington Trust SP Services (London) Limited
Director

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

GROUP CASH FLOW STATEMENT

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

	Note	1 May 2008 to 30 November 2008 €
Cash flows from operating activities		
Loss before tax for the period*		<u>(39,736,370)</u>
<i>Adjustments for</i>		
Loss on disposal of underlying collateral to loan to originator		5,807,868
Impairment of loan to Originator		20,457,857
Increase in other receivables		(10,439,385)
Increase in other payables		<u>26,044,201</u>
Net cash from operating activities		<u>2,134,171</u>
Cash flows used in investing activities		
Deemed loan to the Originator acquired		(3,423,923,943)
Repayment of deemed loan to the Originator		91,699,261
Proceeds received on disposal of deemed loan to the Originator		<u>539,873,510</u>
Net cash used in investing activities		<u>(2,792,351,172)</u>
Cash flows from financing activities		
Issue of loan notes		2,801,696,102
Share capital issued		<u>1</u>
Net cash from financing activities		<u>2,801,696,103</u>
Net increase in cash and cash equivalents		11,479,102
Cash and cash equivalents at start of period		-
Cash and cash equivalents at end of period	11	<u><u>11,479,102</u></u>

*The Group has prepared cash flow under the indirect method. As set out in note 11, all withdrawals from the bank accounts of Excalibur Funding No 1 Plc are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes.

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

COMPANY CASH FLOW STATEMENT

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

	Note	1 May 2008 to 30 November 2008 €
Cash flows from operating activities		
Profit before tax for the period		<u>1</u>
<i>Adjustments for</i>		
Provision for impairment of investments		<u>15,160</u>
Net cash from operating activities		<u>15,161</u>
Cash flows used in investing activities		
Investment in subsidiaries		<u>(15,161)</u>
Net cash used in investing activities		<u>(15,161)</u>
Cash flows from financing activities		
Share capital issued		<u>1</u>
Net cash from financing activities		<u>1</u>
Net increase in cash and cash equivalents		<u>1</u>
Cash and cash equivalents at start of period		<u>-</u>
Cash and cash equivalents at end of period	11	<u><u>1</u></u>

The notes on pages 19 to 34 form part of these financial statements

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

1. PRINCIPAL ACCOUNTING POLICIES

Excalibur Funding No 1 Holdings Limited is a public limited company incorporated and domiciled in the United Kingdom with registered number 06582771

In accordance with the terms of the Prospectus dated 22 May 2008, the Group was allowed to issue up to €2,166,541,000 Class A Notes due April 2054 and €722,181,000 Class B Notes due April 2054

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC interpretations as adopted by the European Union (EU) and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of all derivative contracts

The Group mainly transacts in euros ("€"), therefore, the euro is its functional and presentational currency

The Directors have faced severe difficulties in obtaining information in relation to this securitisation transaction following the collapse of Lehman Brothers. As a result these financial statements have taken a significant time to prepare and the Directors have been unable to determine with sufficient reliability the following matters

- the fair values of the deemed loan to originator and the Class A and Class B floating rate loan notes on the date they were issued. As a result the Directors were unable to determine the appropriate initial carrying amount of these assets and liabilities nor the appropriate effective interest rate to be applied in accounting for these instruments subsequently. In preparing the financial statements, the Directors have used the principal amounts as the initial carrying amounts and for the purposes of determining effective interest rates, although the initial fair values were likely to be significantly less than these amounts,
- the amount of impairment losses to be recognised as at 30 November 2008 in respect of the deemed loan to the originator. In preparing the financial statements, the Directors have recognised impairment losses in respect of Collateral Debt Obligations that had defaulted as at that date, but it is possible that further impairment losses would have been identified if sufficient information was available,
- the fair values of the derivative contracts as at 30 November 2008. In preparing the financial statements, the Directors have assumed the fair values to be nil although they may have determined this to be a different amount if sufficient information was available, and
- the fair values of the deemed loan to the originator and the Class A and Class B floating rate loan notes as at 30 November 2008. In preparing the financial statements, these amounts have not been disclosed

Further work is being progressed on these matters in order for them to be included within the financial statements of subsequent periods

Basis of preparation - going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report. In addition, note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk

The loan notes issued by Excalibur Funding No 1 Plc are non-recourse and their terms as set out in note 14 to the financial statements are such that amounts due are only payable to the extent that there are sufficient receipts from Excalibur Funding No 1 Plc's assets (including derivatives)

As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. It is the intention of the Directors of the Group to continue operations until such time as the amounts due from the underlying Collateral Debt Obligation portfolio has been fully realised

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Basis of preparation - going concern (continued)

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Consolidation

Subsidiaries are all entities over which the Group, directly or indirectly, has power to exercise control over the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated, unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. A list of subsidiaries of the Group is set out in Note 8.

Standards and interpretations issued but not yet effective and not early adopted by the Company

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them.

- IFRS 7, Amendment - 'Improving Disclosures about Financial Instruments' (effective after 1 January 2009)
- IFRS 8, Revised and amendment - 'Operating Segments' (effective after 1 January 2009)
- IFRS 9, Revised - 'Financial Instruments – Classification and Measurement' (effective after 1 January 2013)
- IAS 1, Revised and amendments - 'Presentation of Financial Statements' (effective after 1 January 2009)
- IAS 7, Amendments – 'Statement of Cash Flows' (effective after 1 January 2010)
- IAS 24, Revised - 'Related Party Disclosures' (effective after 1 January 2011)
- IAS 32, Amendments - 'Financial Instruments Presentation' (effective after 1 January 2009)
- IAS 36, Amendments – 'Impairment of Assets' (effective after 1 January 2009)
- IAS 39, Amendments – 'Financial Instruments Recognition and Measurement' (effective after 1 January 2009)

The application of the above mentioned standards and interpretations are not expected to have a material impact on the Company's financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 December 2008 or later periods but are not relevant for the Group's operations.

- IFRS 1, Revised - 'Additional Exemptions for First-time Adopters' (effective after 1 July 2009)
- IFRS 2, Revised - 'Share-based Payments' (effective on or after 1 January 2009)
- IFRS 3, Revised - 'Business Combinations' (effective on or after 1 July 2009)
- IFRS 5, (Amendments) - 'Non-current Assets Held for Sale and Discontinued Operations' (effective after 1 July 2009)

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations (continued)

- IAS 16, Amendments - 'Property, Plant and Equipment' (effective after 1 January 2009)
- IAS 17, Amendments - 'Leases' (effective on or after 1 January 2010)
- IAS 19, Amendments - 'Employee Benefits' (effective after 1 January 2009)
- IAS 20, Amendments - 'Government Grants and Disclosure of Government Assistance' (effective after 1 January 2009)
- IAS 23, Amendment - 'Borrowing Costs' (effective after 1 January 2009)
- IAS 27, Revised - 'Consolidated and Separate Financial Statements' (effective after 1 January 2009)
- IAS 28, Amendments - 'Investment in Associates' (effective after 1 July 2009)
- IAS 29, Amendments - 'Financial Reporting in Hyperinflationary Economies' (effective after 1 January 2009)
- IAS 31, Amendments - 'Interests in Joint Ventures' (effective after 1 July 2009)
- IAS 38, Amendments - 'Intangible Assets' (effective after 1 January 2009)
- IAS 40, Amendment - 'Investment Property' (effective after 1 January 2009)
- IAS 41, Amendment - 'Agriculture' (effective after 1 January 2009)
- IFRIC 14, Amendment - 'IAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective after 1 January 2011)
- IFRIC 15, 'Agreements for the Construction of Real Estate' (effective after 1 January 2009)
- IFRIC 17, 'Distribution of Non-cash Assets to Owners' (effective after 1 July 2009)
- IFRIC 18, 'Distribution of Assets from Customers' (effective after 1 July 2009)
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective after 1 July 2010)

A summary of the more important accounting policies which have been used for the preparation of these financial statements is set out below

Other income

Other income is accounted for on an accruals basis

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the financial reporting date.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred consideration

Deferred consideration is included within interest expense. Deferred consideration is payable to the Originator dependent on the extent to which the surplus income, in excess of the agreed margin, generated by the portfolio of loans in which the Group has purchased an interest, exceeds the administration costs of the portfolio of loans.

Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes, all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Euros at the rates of exchange ruling at the underlying swap rate or at the year end rate, where no swap is in place, at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement.

Financial instruments

The Group's financial instruments comprise collateral loans, cash and liquid resources, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to finance the beneficial interest in a collateral portfolio. These financial instruments are classified in accordance with the principles of IAS 39 Financial Instruments Recognition and Measurement as described below.

Deemed loan to the Originator

Under IAS 39 Financial Instruments Recognition and Measurement, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that the Originator has retained substantially all the risks and rewards of the securitised Collateral Debt Obligations and as a consequence, the Group does not recognise the Collateral Debt Obligations on its balance sheet but rather a deemed loan to the Originator.

The deemed loan to the Originator initially represents the consideration paid by the Group in respect of the acquisition of an interest in the securitised Collateral Debt Obligations and is subsequently adjusted due to repayments made by the Originator to the Group. The deemed loan to the Originator is carried at amortised cost using the effective interest method.

Deferred consideration payable to the Originator, representing the excess of the Group's collections regarding the Collateral Debt Obligations above the Group's payments as determined by the Prospectus, is also netted off against the deemed loan since it is due to and from the same counterparty.

The Group regularly reviews the underlying collateral in relation to the deemed loan to the Originator to assess for impairment.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purposes of the Cashflow Statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition. All withdrawals from the Group's bank accounts are restricted by the detailed priority of payments set out in the offering circular and as such the cash and cash equivalents are not freely available to be used for any other purposes.

Value added tax

Value added tax is not recoverable by the Group and is included with its related cost.

Floating rate loan notes

Floating rate loan notes comprised the Notes issued by the Group through the Prospectus dated 22 May 2008. The Notes were initially recognised at the fair value and are subsequently stated at amortised cost using the effective interest method.

In the event that impairment losses exceed the credit enhancement provided by the Originator, it is possible that some loss may be borne by the Noteholders.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain estimates in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are as follows:

Impairment losses on loan to originator

The recoverability of the loan to originator is dependent on the collections from underlying Collateral Debt Obligations. The Collateral Debt Obligations are considered impaired when it is probable that the Group will be unable to collect all amounts due according to the contractual terms of the agreements. The key assumptions for recoverability relate to estimates of the probability of any account going into default, cash flows from the Collateral Debt Obligations, their timing and expected proceeds from their sale. These key assumptions are based on observed data from historical patterns and are updated regularly as new data becomes available.

In addition, the directors consider how appropriate past trends and patterns could impact the current economic climate and may make any adjustments they believe are necessary to reflect the current economic and market conditions. The accuracy of impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes.

Effective interest rates

The effective interest rate method calculates the amortised cost of a financial asset or financial liability (or a group of financial assets or liabilities) and allocates the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cashflows to the relevant instrument's initial carrying amount. All contractual terms of a financial instrument are considered when estimating future cash flows.

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of the Collateral Debt Obligations and hence the cash flows relating to them. These estimates are based on historical data from historical patterns and are updated regularly. The accuracy of the effective interest rate would therefore be affected by any differences between the actual borrower behaviour and that predicted.

Fair values

A majority of the fair values of Group's financial instruments are not quoted in active markets and are arrived at using valuation techniques. These valuation techniques (for example, models) are validated and periodically reviewed by qualified personnel independent of the personnel that created them. To the extent practical, models use only observable data.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

3 INTEREST INCOME

Interest income represents the interest income on the deemed loan to the Originator together with interest on bank deposits, as analysed below

	Group 1 May 2008 to 30 November 2008 €
Interest income on deemed loan to the Originator	€
Interest income on loans	72,262,623
Net swap interest receivable	3,849,247
Bank interest income	<u>705,178</u>
	<u>76,817,048</u>

The analysis of interest income by geographic location is set out below

Geographic location

Europe	<u>76,817,048</u>
--------	--------------------------

4 INTEREST EXPENSE

	Group 1 May 2008 to 30 November 2008 €
Interest payable on loan notes	<u>88,948,118</u>
	<u>88,948,118</u>

5. OTHER INCOME

	Group 1 May 2008 to 30 November 2008 €
Other income	<u>15,925</u>
	<u>15,925</u>

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

6. ADMINISTRATIVE EXPENSES

	Group 1 May 2008 to 30 November 2008 €
Auditors' remuneration – audit of the statutory financial statements of the Group	142,492
Auditors' remuneration - tax services	11,399
Accountancy fees	21,374
Servicing fees (Note 17)	658,622
Trustee fees	208,393
Agent fees	102,782
Corporate service fees	5,861
Filing fees, statutory returns and couriers	7,787
Rating agency fees	8,133
FX rates	783
Other professional fees	187,874
Impairment of investments	-
	<u>1,355,500</u>

Apart from the directors, the Group has no employees and, other than the fees paid to Wilmington Trust SP Services (London) Limited as set out in note 17, the directors received no remuneration during the period

7. TAXATION

(a) Analysis of charge in the period

	Group 1 May 2008 to 30 November 2008 €
Current tax.	
Corporation tax charge for the period	3,344
Total income tax charge in the income statement	<u>3,344</u>

(b) Reconciliation of effective tax rate

The tax assessed on the loss on ordinary activities for the period is equal to the small companies' rate of corporation tax in the UK of 21%

	Group 1 May 2008 to 30 November 2008 €
(Loss)/profit before tax	<u>(39,736,370)</u>
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 21%	(8,344,638)
Losses not recognised for tax purposes	8,344,638
Disallowable expenditure for tax purposes	<u>3,344</u>
Total income tax charge	<u>3,344</u>

As at 30 November 2008, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37)

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

8 INVESTMENTS

	Company 2008 £
Non-current assets	
Investments in subsidiaries at cost	
At 1 May 2008	-
Additions in the period	15,161
Provision for impairment	(15,160)
At 30 November 2008	<u>1</u>

Subsidiaries of the Company as at 30 November 2008

Name of company	Country of registration	Details of investments & proportion held by company	Nature of business
Excalibur Funding No 1 Plc	England and Wales	100% of ordinary shares	Securitisation of Collateral Debt Obligations
Excalibur Funding No 1 Options Limited	England and Wales	100% of ordinary shares	Securitisation Option Company

9. DEEMED LOAN TO THE ORIGINATOR

	Group 2008 €
At start of the period	-
Additions	3,423,923,943
Repayments	(91,699,261)
Disposals	(545,681,378)
Provision for impairment	(20,457,857)
Deferred purchase consideration	-
At 30 November 2008	<u>2,766,085,447</u>

Deemed loan to the Originator refers to the beneficial interest in the Collateral Debt Obligations portfolio initially acquired from Lehman Brothers Financing Ltd, Lehman Commercial Paper Inc, United Kingdom Branch, Lehman Brothers Bankhaus AG, London Branch, Lehman Brothers International (Europe), LB RE Financing No 3 Ltd and Storm Funding Limited, each of which, according to their terms, entitles the holders to payments of interest and repayments of principal

10. OTHER ASSETS

	Group 2008 €
Accrued interest receivable	<u>10,439,385</u>

11. CASH AND CASH EQUIVALENTS

	Group 2008 €	Company 2008 €
Cash and bank current accounts	<u>11,479,102</u>	<u>1</u>

All withdrawals from the bank accounts of Excalibur Funding No 1 Plc are restricted by the detailed priority of payments set out in the securitisation agreements. At 31 November 2008 these amounted to €11,479,099

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially accounted and measured at fair value on the date they are entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement. The Directors have been unable to obtain fair values of the derivative financial instruments at 30 November 2008 on which they are currently able to rely following the collapse of Lehman Brothers. As a result, no fair value adjustments have been made in the financial statements in relation to the derivatives.

13. TOTAL EQUITY

Reconciliation of movement in capital and reserves

	Share capital	Retained earnings	Total
Group:	€	€	€
At 1 May 2008	-	-	-
Issued capital	1	-	1
Loss for the period	-	<u>(39,739,714)</u>	<u>(39,739,714)</u>
Balance at 30 November 2008	<u>1</u>	<u>(39,739,714)</u>	<u>(39,739,713)</u>
Company:	€	€	€
At 1 May 2008	-	-	-
Issued capital	1	-	1
Loss for the period	-	<u>(3,343)</u>	<u>(3,343)</u>
Balance at 30 November 2008	<u>1</u>	<u>(3,343)</u>	<u>(3,342)</u>

There are 1,000 authorised ordinary shares of £1 each. The issued share capital consists of 1 fully paid ordinary share. The issued share capital is reflected in the financial statements as €1 (£1).

14. LIABILITIES

	Group 2008
Non-current liabilities	€
Class A floating rate loan notes	<u>2,166,541,000</u>
Current liabilities	
Class B floating rate loan notes	<u>635,155,102</u>
Total floating rate loan notes	<u>2,801,696,102</u>

Interest on the Notes is payable quarterly in arrears on 28 January, 28 April, 28 July and 28 October in each year, adjusted for non-Business Days, commencing on 28 July 2008. Interest on the Notes is calculated based on three month EURIBOR plus a margin of 2% per annum for the Class A Notes and 0.40% per annum for the Class B Notes.

A failure by the Excalibur Funding No 1 Plc to pay interest due on the Class A Notes on any payment date will result in the occurrence of an event of default of the Notes. This will result in the Notes becoming enforceable, in accordance with the conditions attached to the issue of the Notes as set out in the Prospectus. However, a failure by the Excalibur Funding No 1 Plc to pay interest on the Class B Notes will not result in the occurrence of an event of default of the Notes. Interest on the Class B Notes is not paid under certain conditions. Interest on the Class B Notes was not paid in October 2008 as the Class A interest coverage test was not met.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

14. LIABILITIES (continued)

The Floating Rate Notes are due to be repaid by April 2054 and are secured over a portfolio of collateral secured by first charges over commercial real estate. The repayment of the loan notes are dependent on the receipt in full of the payments from the collateral real estate loans purchased.

Subject to certain conditions, the Floating Rate Notes are subject to early redemption only at the option of the Class B Noteholders. Under the terms of this option, the Notes shall be redeemed by the Excalibur Funding No 1 Plc, in whole but not in part, from the proceeds of liquidation or realisation of the underlying Collateral Debt Obligations on any payment date at the request in writing of the holders representing at least 66 2/3 per cent of the principal amount outstanding of the Class B Notes. The Class B Notes cannot be optionally redeemed unless, not less than seven and not more than fifteen business days before the scheduled redemption date, the Company, based on the certification by Lehman Brothers International (Europe) as Administrative Agent, has certified to the Trustee that the expected net proceeds from either

- i) The entry into a binding agreement with a financial institution, or
- ii) The liquidation of the collateral to be received in before the redemption date

will equal or exceed the applicable redemption threshold test as defined in the underlying securitisation transaction documentation.

The Trustee (as agent for the noteholders) and Excalibur Funding No 1 Options Limited, a sister company of Excalibur Funding No 1 Plc, have entered into a post-enforcement call option agreement which will require, upon exercise of the option granted to Excalibur Funding No 1 Options Limited by the Trustee, the transfer to Excalibur Funding No 1 Options Limited of all (but not part) of the Notes. The Post-Enforcement Call Option may be exercised by the Excalibur Funding No 1 Options Limited on the date following the enforcement by the Trustee of the Issuer Security on which the Trustee determines that there are no further assets available to pay amounts due and owing to the Noteholders. Noteholders will be bound by the terms of the Post-Enforcement Call Option granted to Excalibur Funding No 1 Options Limited and the Noteholders will not be paid more than a nominal amount for that transfer.

15. OTHER LIABILITIES

	2008
	€
Interest payable	25,576,424
Accruals and deferred income	467,777
	<u>26,044,201</u>

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

16. PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial instruments comprise a loan to the originator, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main risk arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk and currency risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. Currency risk exists where assets and liabilities are denominated in more than one currency. The Group uses interest rate swaps and currency swaps to mitigate its exposure to interest rate risk.

The Hedging Arrangements for currency and interest rate risk are comprised of

- (a) transactions under which interest payments in respect of Collateral Debt Obligations which are paid by reference to a fixed rate of interest or a weighted average reference rate will be swapped to a floating rate of interest (the "Interest Rate Swap Transactions"),
- (b) transactions under which interest payments in respect of Collateral Debt Obligations which are paid by reference to a particular day-count fraction basis or which pay interest less frequently than quarterly will be swapped to a rate of interest calculated by reference to the day-count fraction basis applicable to the Notes or, as applicable, which is paid quarterly (the "Basis Swap Transactions"), and
- (c) transactions under which payments in respect of Collateral Debt Obligations which are paid in a currency other than Euro will be swapped into Euro (the "Currency Swap Transactions").

The Hedging Arrangements were provided by Lehman Brothers Special Financing Inc (the "Hedge Provider"). The obligations of the Hedge Provider under the Hedge Arrangements were guaranteed by Lehman Brothers Holdings Inc (the "Hedge Guarantor"). The Excalibur Funding No 1 Plc entered into Hedging Arrangements on an "asset by asset" basis, so that Hedging Arrangements in respect of each Collateral Debt Obligation that required hedging were in place.

Interest rate and foreign exchange sensitivity

The sensitivity of the Group to interest rate and foreign exchange rate fluctuations, and the resulting changes in net assets attributable to equity shareholders, is limited as Excalibur Funding No 1 Plc only retains 0.01% of available revenue receipts from its interest in the loans portfolio with the resulting fluctuations being taken up by the deferred purchase consideration.

The following interest rate sensitivity analysis has been determined based on the Group's exposure to interest rates for interest bearing assets and liabilities at the balance sheet date and has been based on management's assessment of the possible changes in interest rates.

If interest rates had been 25 basis points higher or lower, and all other variables held constant, net assets attributable to equity shareholders for the period ended 30 November 2008 would have been €701 higher or lower respectively.

The following foreign exchange rate sensitivity analysis has been determined based on the Company's exposure to foreign exchange rates for assets and liabilities in currencies other than Euro at the balance sheet date and has been based on management's assessment of the possible changes in foreign exchange rates.

If foreign exchange rates had varied been 5% higher or lower, and all other variables held constant, net assets attributable to equity shareholders for the period ended 30 November 2008 would have been €5 higher or lower respectively.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

16. PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Interest rate risk

All of the Group's financial liabilities are floating rate and carry interest rates based on the relevant three-month EURIBOR rate

Interest rate re-pricing analysis

The following table details the Group's exposure to interest rate risk by the earlier of contractual maturities or re-pricing

	Total €	1 to 3 months €	Fixed rate €	Non interest bearing €
2008				
Assets				
Deemed loan to the originator	2,766,085,447	1,629,240,274	1,157,303,030	(20,457,857)
Other assets	10,439,385	-	-	10,439,385
Cash and cash equivalents	11,479,102	11,479,102	-	-
Total assets	<u>2,788,003,934</u>	<u>1,640,719,376</u>	<u>1,157,303,030</u>	<u>(10,018,472)</u>
Liabilities				
Floating rate loan notes	2,801,696,102	2,801,696,102	-	-
Taxation	3,344	-	-	3,344
Other liabilities	26,044,201	-	-	26,044,201
Total liabilities	<u>2,827,743,647</u>	<u>2,801,696,102</u>	<u>-</u>	<u>26,047,545</u>

Foreign exchange exposure

The Group's total net exposure in foreign currency exchange rates at 30 November was approximately

	Total €	Euro €	Sterling €	SEK €
2008				
Assets				
Deemed loan to the originator	2,766,085,447	2,152,254,020	329,894,011	283,937,416
Other assets	10,439,385	8,645,369	1,667,344	126,672
Cash and cash equivalents	11,479,102	2,459,113	9,019,840	149
Total assets	<u>2,788,003,934</u>	<u>2,163,358,502</u>	<u>340,581,195</u>	<u>284,064,237</u>
Liabilities				
Floating rate loan notes	2,801,696,102	2,801,696,102	-	-
Taxation	3,344	-	3,344	-
Other liabilities	26,044,201	25,868,935	175,266	-
Total liabilities	<u>2,827,743,647</u>	<u>2,827,565,037</u>	<u>178,610</u>	<u>-</u>

Credit risk

The principal credit risk to the Group is that the borrowers will not be able to meet their obligations as they fall due on the loans underlying Collateral Debt Obligations acquired by Excalibur Funding No 1 Plc. The amount and timing of receipt of the principal and interest in respect of the Collateral Debt Obligations will depend upon the detailed terms of the documentation relating to each of them, on whether or not any obligor thereunder defaults in its obligations and the proceeds realised through enforcing security granted by obligors under the Collateral Debt Obligations. Because all Collateral Debt Obligations are serviced out of cash-flow generated by commercial real estate assets, the performance of the Collateral Debt Obligations will depend on the cash-flow-generating ability of those assets.

At 30 November 2008, the Collateral Debt Obligation portfolio had a carrying value of was €2,766,085,447 including a provision for impairment of €20,457,857.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

16 PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Liquidity risk

Liquidity risk arises where the funds received by the Group are insufficient to meet the debts of the Group as they fall due for payment on the relevant interest payment dates. The availability of funds is determined on set determination dates under the terms of the securitisation by the cash manager. All payments are made in accordance with a pre-defined priority of payments schedule and Excalibur Funding No 1 Plc is structured so that it is only liable to pay amounts falling due to the extent that it has received funds. Excalibur Funding No 1 Plc has also entered into certain Liquidity Arrangements.

The Liquidity Arrangements are comprised of a facility provided to Excalibur Funding No 1 Plc under an agreement (the "Advancing Agency Agreement") pursuant to which Lehman Commercial Paper Inc., United Kingdom Branch (the "Advancing Agent") will, subject to certain conditions and certain limitations, make payments to Excalibur Funding No 1 Plc in the event that Excalibur Funding No 1 Plc does not receive scheduled payments of interest that it should have received under the terms of the Collateral Debt Obligations. The Liquidity Arrangements are intended to enable Excalibur Funding No 1 Plc to pay interest as required to the Class A Noteholders and to pay amounts to Excalibur Funding No 1 Plc's creditors which are payable in priority to the Class A Noteholders. The amount available to Excalibur Funding No 1 Plc under the Advancing Agency Agreement will be increased, from time to time, to reflect the acquisition of Additional Collateral Debt Obligations and Substitute Collateral Debt Obligations, as well as the issuance of Additional Notes.

The following table details the Group's liquidity analysis for its financial liabilities at 30 November

The actual cashflows will vary from the amounts disclosed due to the unpredictable nature of the principal collections which are used to repay the principal on the floating rate notes on a quarterly basis and changes in EURIBOR values. 3 month Euribor at 30 November 2008 was 3.853%.

The table has been drawn up based on the expected undiscounted gross cash flows on the cash flows that settle on a gross basis.

Group	Total	1 to 3	3 to 12	In more than 1 year but not more than 5 years	In more than 5 years
2008		months	months		
Financial liabilities	€	€	€	€	€
Floating rate loan notes	2,801,696,102	-	-	-	2,801,696,102
Interest payable	<u>7,109,445,756</u>	<u>46,935,041</u>	<u>117,074,713</u>	<u>780,640,515</u>	<u>6,164,795,487</u>
Total	<u>9,911,141,858</u>	<u>46,935,041</u>	<u>117,074,713</u>	<u>780,640,515</u>	<u>8,966,491,589</u>

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any external capital requirements except for the minimum requirement under the Companies Act 1985. The Group has not breached the minimum requirement.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

**FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008**

16. PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Counterparty Risk

The Hedging Arrangements involve the Group entering into contracts with the Hedge Provider or, as the case may be, the Seller of a Collateral Debt Obligation novating in favour of the Group its rights and obligations under a corresponding contract with the Hedge Provider. Pursuant to such contracts, the Hedge Provider will agree to make payments to the Group under certain circumstances as described therein. The Group will be exposed to the credit risk of the Hedge Provider in respect of any such payments. The obligations of the Hedge Provider will be guaranteed by the Hedge Guarantor. Accordingly, the Group is also exposed to the credit risk of the Hedge Guarantor. If the Hedge Provider defaults or becomes unable to perform due to insolvency or otherwise, the Group may not receive payments it would otherwise be entitled to from the Hedge Provider to cover its foreign exchange and interest rate exposure. The Liquidity Arrangements involve the Group entering into contracts with the Advancing Agent. The Group will be exposed to the unwillingness or inability on the part of the Advancing Agent to make funds available under the Advancing Agency Agreement, which is, in any event, subject to the Advancing Agent undertaking a Recoverability Determination.

As discussed above, Lehman Brothers Special Financing Inc, Lehman Brothers Holdings Inc and Lehman Commercial Paper Inc, United Kingdom Branch all filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code on 15 September 2008.

Prepayment risk

Prepayment risk on the Collateral Debt Obligations arises when these are voluntarily prepaid by the relevant borrower. This will be influenced by the prepayment provisions of the related Underlying Loans and also may be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the Collateral Debt Obligations (giving consideration to the cost of refinancing) and prevailing interest rates and the availability of refinancing. With respect to all of the loans, such prepayment is contingent upon the payment of a prepayment fee. Any prepayment fees required to be paid by a borrower will be paid to the Originator as part of the deferred consideration and will not form part of available funds. The directors do not believe that the Group has any significant prepayment risk.

The Underlying Loans may provide for balloon payments to be due at their respective stated maturity dates unless prepaid prior thereto. Underlying Loans with balloon payments involve a greater likelihood of default than self-amortising loans because the ability of an Underlying Obligor to make a balloon payment will typically depend upon its ability either to refinance such Underlying Loan or to sell the related Underlying Property. The ability of an Underlying Obligor to accomplish either of these goals will be affected by a number of factors, including the value of the related Underlying Property, the level of available mortgage rates at the time of sale or refinancing, the equity of the Underlying Obligor in the related Underlying Property, the financial condition and operating history of the Underlying Obligor and the related Underlying Property, tax laws, rent control laws (with respect to certain residential properties), prevailing general economic conditions and the availability of credit for Loans secured by commercial properties generally.

Financial instruments

The Group's financial instruments, comprise of a deemed loan to the Originator, cash and liquid resources, interest-bearing borrowings and various receivables and payables that arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO
30 NOVEMBER 2008

16. PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Fair values

The approximate fair values together with the carrying amounts shown in the balance sheet are as follows

	Note	Group Carrying amount 2008 €	Group Approximate fair value 2008 €	Company Carrying amount 2008 €	Company Approximate fair value 2008 €
Investment in subsidiaries	8	-	-	1	1
Deemed loan to the Originator	9	2,766,085,447	(a)	-	-
Other assets	10	10,439,385	10,439,385	-	-
Cash and cash equivalents	11	<u>11,479,102</u>	<u>11,479,102</u>	<u>1</u>	<u>1</u>
		<u>2,788,003,934</u>	<u>(a)</u>	<u>2</u>	<u>2</u>
Liabilities	14	2,801,696,102	(a)	-	-
Taxation	7	3,344	3,344	3,344	3,344
Other liabilities	15	<u>26,044,201</u>	<u>26,044,201</u>	<u>-</u>	<u>-</u>
		<u>2,827,743,647</u>	<u>(a)</u>	<u>3,344</u>	<u>3,344</u>

- (a) The Director's have been unable to obtain fair values for the deemed loan to the originator, the derivatives or the Notes at 30 November 2008

17. RELATED PARTY TRANSACTIONS

The Group has identified the following transactions which are required to be disclosed under the terms of IAS 24 "Related Party Disclosures"

During the period administration and accounting services were provided by Wilmington Trust SP Services (London) Limited for which Wilmington Trust SP Services (London) Limited earned €27,235. Mr M H Filer and Mr M McDermott, director's of the Company are also director's of Wilmington Trust SP Services (London) Limited. At 30 November 2008 €27,235 remained outstanding and included within accruals and deferred income.

During the period Excalibur Funding No 1 Plc acquired a beneficial interest in a Collateral Debt Obligations portfolio which had been acquired from Lehman Brothers Financing Ltd, Lehman Commercial Paper Inc, United Kingdom Branch, Lehman Brothers Bankhaus AG, London Branch, Lehman Brothers International (Europe), LB RE Financing No 3 Ltd and Storm Funding Limited. The value of Collateral Debt Obligations acquired, including substitutions and additional purchases, amounted to €3,423,923,943. Principal repayments received in the period amounted to €91,699,261. The Collateral Debt Obligations portfolio has been treated as a deemed loan to the originator. No deferred consideration has been earned or paid to any of the sellers of the Collateral Debt Obligations during the period.

During the period, Lehman Brothers International (Europe) was appointed as the Administrative Agent to act as the agent of Excalibur Funding No 1 Plc in relation to the purchase and sales of Collateral Debt Obligations, which take place at the direction of the Class B Noteholders, and in relation to certain other matters. On 15 September 2008 Lehman Brothers International (Europe) went into Administration. No fees were paid during the period or were owed at 30 November 2008.

During the period, Lehman Brothers Special Financing, Inc. was appointed as the Hedge Provider to enter into the Interest Rate Swap Transactions, the Basis Swap Transactions and the Currency Swap Transactions with Excalibur Funding No 1 Plc. On 15 September 2008 Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. The net amounts received under the swap transactions amounted to €3,849,247 in the period and it has not been possible to determine the amount owed at 30 November 2008.

EXCALIBUR FUNDING NO.1 HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 1 MAY 2008 TO 30 NOVEMBER 2008

17. RELATED PARTY TRANSACTIONS (continued)

During the period, Lehman Brothers Holdings, Inc was appointed as the Hedge Guarantor to act as the guarantor of the obligations of the Hedge Provider under the Interest Rate Swap Transactions, the Basis Swap Transactions and the Currency Swap Transactions. On 15 September 2008 Lehman Brothers Holdings Inc filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. This constituted an event of default under the terms of the Hedging Arrangements and as such the Company had no continuing obligation to make payment under the terms of the Hedging Arrangements. Lehman Brothers Holdings Inc was also downgraded below the required minimum rating requirements required by the transaction documentation and were therefore asked to post collateral. No such funds collateral have been received by the Group.

During the period, Lehman Commercial Paper Inc, United Kingdom Branch was appointed as the Advancing Agent to enter into the Advancing Agency Agreement with Excalibur Funding No 1 Plc under which it, subject to certain conditions and limitations, will make payment to Excalibur Funding No 1 Plc of amounts that Excalibur Funding No 1 Plc is scheduled to receive but does not receive under the Collateral Debt Obligations. On 15 September 2008 Lehman Commercial Paper Inc, filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Lehman Commercial Paper Inc earned fees amounting to €102,782 during the period, of which €67,792 remained outstanding at 30 November 2008 and is included within accruals and deferred income.

18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Wilmington Trust SP Services (London) Limited, a director of the Company, holds the shares in Excalibur Funding No 1 Holdings Limited under a Declaration of Trust for charitable purposes. Ultimate control of the Group rests with the directors and shareholders.