

# **Southern Pacific Funding I Limited**

## **Report and Financial Statements**

30 November 2010

Registered No 03271135

WEDNESDAY



A54      \*AEQ18X5P\*      82  
31/08/2011  
COMPANIES HOUSE

# Southern Pacific Funding I Limited

Registered No 3271135

---

## **Director**

L Brandon

## **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

## **Registered Office**

23rd Floor  
No 25 Canada Square  
London  
E14 5LQ

## Director's report

The Director presents his report and the audited financial statements for the year ended 30 November 2010

### Principal activities

The principal activity of the Company, which is a wholly owned subsidiary of Southern Pacific Mortgage Limited, is to warehouse residential mortgages originated by its parent company prior to their securitisation by company

### Business review and future developments

The Company has made a profit after tax of £3,058 (2009 – loss of £92,704) from financing mortgage loans originated by its parent company Southern Pacific Mortgage Limited prior to securitisation of these mortgage loans

In March 2008 Southern Pacific Mortgage Limited executed two final securitisations and on 2 April 2008 Southern Pacific Mortgage Limited announced a suspension of their mortgage lending activities

On 15 September 2008, the ultimate parent Company Lehman Brothers Holdings Inc , filed for Chapter 11 bankruptcy protection

On 23 September 2008, the principal funder of the Company, Storm Funding Limited, was placed into administration

At 30 November 2010, the Company held £852,900 (2009 - £1,204,042) of mortgage loans Given the current economic environment the Director is considering the future of the company

### Results

The results for the year are shown in the profit and loss account on page 8

### Dividend

The Director does not recommend the payment of a dividend for the current year (2009 – £nil)

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review and future developments section of this report In addition, the company's financial risk management policies and objectives are set out in the Principal risks and uncertainties section of this report

On 2 April 2008, Southern Pacific Mortgage Limited, the immediate parent company, announced a suspension of their mortgage lending activities The Company expects to continue to manage its remaining portfolio

On 15 September 2008, the ultimate parent Lehman Brothers Holdings Inc , filed for Chapter 11 bankruptcy protection

On 23 September 2008, the principal funder of the Company Storm Funding Limited (in administration) was placed into administration

The Company is currently in breach of the terms of the funding agreement with Storm Funding Limited (in administration) due to an increase in the level of losses on the redemption of some loans The Company owes Storm Funding Limited (in administration) £0.9 million and has net liabilities of £1.5 million as at 30 November 2010

## Director's report

### Going concern (continued)

The Company is currently funded by Storm Funding Limited (in administration), however, the Director understands that the Joint Administrators of Storm Funding Limited (in administration) are currently reviewing their options in respect of the outstanding debt. The Director has concluded that there is a material uncertainty over whether funding will continue to be made available although, at the date of approval of these financial statements such funding is continuing to be provided. Based on enquiries, there are reasonable expectations that the funding will be available. Given the current availability of funding, the Director considers that the Company will be able to continue in operational existence for the foreseeable future and the Director is currently considering the best course of action to take to realise the value of the remaining assets of the Company.

Based on the current situation the Director believes that it remains appropriate to prepare the financial statements on a going concern basis. However, as described above, the Director has concluded that the above circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in an orderly manner. Nevertheless, after making enquiries and considering the uncertainties described above, the Director has a reasonable expectation that the Company is able to continue in operational existence for the foreseeable future. For this reason, the Director continues to adopt the going concern basis of accounting in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern. The financial statements have been prepared in accordance with the accounting policies adopted in the prior year, as set out in note 1 'Accounting Policies'.

### Directors

The directors who held office during the year and after the year end was as follows:

L Brandon (appointed 17 June 2010)

A Attia (resigned 17 June 2010)

### Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice. It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with supplier at the outset. It is the policy of the Company to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year end (2009 – nil days).

### Principal risks and uncertainties

#### Financial instrument risks

The financial instruments held by the Company comprise mortgages, borrowings and trade creditors that arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk. The Director reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous financial year.

## Director's report

### Principal risks and uncertainties (continued)

#### Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages purchased by the Company during the year were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) as well as intercompany debtors is closely monitored by the Director.

#### Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

#### Liquidity risks

The Company manages its liquidity in conjunction with its funding provider, Storm Funding Limited (in administration). The Company uses interest and principal received from mortgage loans to repay interest and principal owed to its funding provider.

The Company is currently in breach of the terms of the funding agreement with Storm Funding Limited (in administration) due to an increase in the level of losses on the redemption of some loans. The Joint Administrators of Storm Funding Limited (in administration) have indicated that they have no current intention to demand payment of the debt in the immediate future and continue to work in conjunction with the company to enable the company to liquidate its assets in an orderly fashion.

### Disclosure of information to the auditors

So far as the Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of previous directors and the Company's auditor, the Director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting in accordance with the provision of Section 485 of the Companies Act 2006.



L Brandon

Director

Date 25 Aug 2011

## Statement of director's responsibilities

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is 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.

# **Independent auditors' report**

## **to the members of Southern Pacific Funding I Limited**

We have audited the financial statements of Southern Pacific Funding I Limited for the year ended 30 November 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of director and auditors**

As explained more fully in the Director's Responsibilities Statement set out on page 5, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Director, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies in the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 November 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of Matter – Going Concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 of the financial statements concerning the Company's ability to continue as a going concern. The conditions described in note 1 indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditors' report

to the members of Southern Pacific Funding I Limited

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of director's remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Ernst & Young LLP*

Andrew Woosey (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

Date *30 Aug 2011*



## Profit and loss account

for the year ended 30 November 2010

	Notes	2010 £000	2009 £000
Interest receivable and similar income	2	25	45
Interest payable and similar charges	3	(17)	(77)
<b>Net interest receivable/(payable)</b>		<u>8</u>	<u>(32)</u>
Other operating income	4	1	1
<b>Net operating income/(expenses)</b>		<u>9</u>	<u>(31)</u>
Operating expenses	5	(6)	(62)
<b>Profit/(loss) on ordinary activities before taxation</b>	5	<u>3</u>	<u>(93)</u>
Tax on profit/(loss) on ordinary activities	7	–	–
<b>Profit/(loss) on ordinary activities after taxation</b>	13	<u><u>3</u></u>	<u><u>(93)</u></u>

The profit for the year was derived from continuing operations

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £3,058 in the year ended 30 November 2010 (2009 – loss of £92,704)

The notes on pages 10 to 15 form part of these financial statements

## Balance sheet

at 30 November 2010

	Notes	2010 £000	2009 £000
<b>Assets</b>			
Debtors			
Amounts falling due after one year	8	843	1,143
Amounts falling due within one year	10	462	462
Cash at bank and in hand		99	114
		<u>1,404</u>	<u>1,719</u>
<b>Creditors:</b> amounts falling due within one year	11	(2,913)	(3,231)
		<u>(1,509)</u>	<u>(1,512)</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	12	–	–
Profit and loss account	13	(1,509)	(1,512)
		<u>(1,509)</u>	<u>(1,512)</u>
<b>Shareholder's funds</b>	14	(1,509)	(1,512)
		<u>(1,509)</u>	<u>(1,512)</u>

The notes on pages 10 to 15 form part of these financial statements

These financial statements were approved and signed by the Director



L Brandon

Director

Date 25 Aug 2011

## Notes to the financial statements

at 30 November 2010

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention

#### ***Going concern***

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review and future developments section of the Director's Report. In addition, the company's financial risk management policies and objectives are set out in the Principal risks and uncertainties section of the Director's Report

On 2 April 2008 Southern Pacific Mortgage Limited, the immediate parent company, announced a suspension of their mortgage lending activities. The Company expects to continue to manage its remaining portfolio

On 15 September 2008, the ultimate parent Lehman Brothers Holdings Inc., filed for Chapter 11 bankruptcy protection

On 23 September 2008, the principal funder of the company Storm Funding Limited (in administration) was placed into administration

The Company is currently in breach of the terms of the funding agreement with Storm Funding Limited (in administration) due to an increase in the level of losses on the redemption of some loans. The Company owes Storm Funding Limited (in administration) £0.9 million and has net liabilities of £1.5 million as at 30 November 2010

The Company is currently funded by Storm Funding Limited (in administration), however, the Director understands that the Joint Administrators of Storm Funding Limited (in administration) are currently reviewing their options in respect of the outstanding debt. The Director has concluded that there is a material uncertainty over whether funding will continue to be made available although, at the date of approval of these financial statements such funding is continuing to be provided. Based on enquiries, there are reasonable expectations that the funding will be available. Given the current availability of funding, the Director considers that the Company will be able to continue in operational existence for the foreseeable future and the Director is currently considering the best course of action to take to realise the value of the remaining assets of the Company

Based on the current situation the Director believes that it remains appropriate to prepare the financial statements on a going concern basis. However, as described above, the Director has concluded that the above circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in an orderly manner. Nevertheless, after making enquiries and considering the uncertainties described above, the Director has a reasonable expectation that the Company is able to continue in operational existence for the foreseeable future. For this reason, the Director continues to adopt the going concern basis of accounting in preparing the financial statements. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern

#### ***Mortgage loans***

Mortgage loans are stated at cost less provision made to reduce the value of the loans to their estimated recoverable amount. Provisions are made against mortgages when, in the opinion of the director, credit risk or economic risk makes recovery doubtful

## Notes to the financial statements

at 30 November 2010

### 1. Accounting policies (continued)

#### ***Cash Flow Statement and Related Party Disclosure***

The Company has taken advantage of the exemption under Financial Reporting Standards (FRS) 1 (revised) and has not produced a cash flow statement, since it is wholly owned subsidiary and its immediate parent undertaking, Resefan Limited, prepares consolidated financial statements that are publicly available and include a cash flow statement. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Resefan Limited group.

#### ***Provisions***

Specific provisions for losses on loans and advances to customers are made throughout the year and at the year-end on a case-by-case basis (calculated with reference to the probability of the loan defaulting and the value of the security held against the loan). The specific provision for properties in possession is based on the balance outstanding less a discounted valuation of the security held (with adjustments for expenses of sale).

A provision for losses is made for the collective risk of default by customers which is inherent in a mortgage portfolio on balances excluding those provided for specifically.

Provision is made against intercompany receivables based on the Director's current view of the recoverability of the receivable at the balance sheet date.

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the Director considers it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### ***Turnover***

The Company's turnover and trade are wholly within the United Kingdom and within a single market sector. Consequently, no segmental analysis has been prepared.

#### ***Interest***

Receipts and payments of interest are accounted for on an accruals basis.

#### ***Redemption fee income***

Redemption fees are receivable on mortgage loans when partially or fully repaid. The level of the fee is dependent on the specific product. The income is credited to the profit and loss account as received.

#### ***Sundry fee income***

Borrowers may be charged fees as a result of specific information requests and where mortgage accounts fall into delinquency. This income is credited to the profit and loss account on an accruals basis.

## Notes to the financial statements

at 30 November 2010

### 1. Accounting policies (continued)

#### **Funding costs**

Costs incurred in arranging funding facilities are amortised over the period of the facility. Unamortised costs are deducted from the associated liability in accordance with Financial Reporting Standard No 4 and costs amortised in the year are included in interest payable.

### 2. Interest receivable and similar income

	2010 £000	2009 £000
On mortgage loans	25	44
On cash balances	–	1
	<u>25</u>	<u>45</u>

### 3. Interest payable and similar charges

	2010 £000	2009 £000
Interest payable on group related entity loan	17	77
	<u>17</u>	<u>77</u>

### 4. Other operating income

	2010 £000	2009 £000
Sundry fee income	1	1
	<u>1</u>	<u>1</u>

### 5. Profit/(loss) on ordinary activities before taxation

This is stated after charging/(crediting)

	2010 £000	2009 £000
Provision for mortgage losses	(51)	43
	<u>(51)</u>	<u>43</u>

Auditors' remuneration was borne by the Company's parent company, Southern Pacific Mortgage Limited, and is disclosed in the financial statements of that company.

### 6. Information regarding directors and employees

The Company has no employees (2009 – none). The Director received no remuneration from the Company during the year (2009 – £nil). The Director's remuneration is borne by Southern Pacific Mortgage Limited and is disclosed in the financial statements of that company.

## Notes to the financial statements

at 30 November 2010

### 7. Tax on profit/(loss) on ordinary activities

Analysis of tax charge in the year

	2010 £000	2009 £000
<i>Current tax</i>		
UK corporation tax on profit/(loss) of the year	–	–
Total current tax (note 7(b))	–	–
<i>Deferred tax</i>		
Origination and reversal of timing difference	–	–
Tax on profit/(loss) on ordinary activities	–	–

#### (b) Factors affecting the tax charge in the year

The tax assessed for the year differs to the standard rate for current corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before tax	3	(93)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax of 28% (2009 – 28%)	1	(26)
<i>Effects of</i>		
Tax losses carried forward but not recognised	(1)	26
Utilisation of tax losses	–	–
Current tax charge for year	–	–

Losses of £89,647 resulting in a deferred tax asset of £24,205 have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the company's future profitability

Legislation was introduced in the Finance (No 2) Act 2010 to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 The effect of this reduction is reflected in the deferred tax asset not recognised disclosed in the accounts On 23 March 2011 as part of the 2011 Budget, the UK government has announced its intention to legislate to reduce the rate to 26% with effect from 1 April 2011 and further by 1% per annum falling to 23% with effect from 1 April 2014 The reduction to 26% has subsequently been enacted under the provisions of the Provisional Collective of Taxes Act 1968

## Notes to the financial statements

at 30 November 2010

### 8. Mortgage loans – net balances

	<i>Mortgages</i> <i>£000</i>	<i>Mortgage loss provision</i> <i>£000</i>	<i>Total</i> <i>£000</i>
At beginning of the year	1,204	(61)	1,143
Net movement	(351)	51	(300)
At end of the year	853	(10)	843

Net mortgage loan of £843,467 (2009 – £1,143,655) are held as security against loans from group undertakings referred to in note 11

### 9. Debtors: amounts falling due after one year

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Mortgage loans		
Net balances (note 8)	843	1,143

### 10. Debtors: amounts falling due within one year

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Amounts owed by group undertakings	462	462
	462	462

### 11. Creditors: amounts falling due within one year

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Amounts owed to group undertakings	2,283	2,593
Other creditors	630	638
	2,913	3,231

Certain amounts owed to group undertakings of £897,059 (2009 - £1,208,312) are secured by a fixed charge over the assets of the Company

### 12. Issued share capital

	<i>2010</i> <i>£</i>	<i>2009</i> <i>£</i>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1	1

## Notes to the financial statements

at 30 November 2010

### 13. Profit and loss account

	2010 £000	2009 £000
Retained loss account brought forward	(1,512)	(1,419)
Retained profit/(loss) profit for the year	3	(93)
Retained loss account carried forward	<u>(1,509)</u>	<u>(1,512)</u>

### 14. Reconciliation of shareholder's funds

	2010 £000	2009 £000
Opening shareholder's funds	(1,512)	(1,419)
Retained (loss)/ profit for the year	3	(93)
Closing shareholder's funds	<u>(1,509)</u>	<u>(1,512)</u>

### 15. Ultimate parent undertaking and controlling party

The Company is controlled by its parent undertaking Southern Pacific Mortgage Limited which is registered and operates in the United Kingdom

The ultimate parent company of Southern Pacific Funding I Limited is Lehman Brothers Holding Inc, which is incorporated in the State of Delaware in the United States of America. On 15 September 2008, the ultimate parent undertaking Lehman Brothers Holdings Inc, filed for Chapter 11 bankruptcy protection.

The largest and smallest group in which the results of the Company are consolidated is that headed by Resettan Limited registered in England and Wales. The consolidated financial statements of these groups are available from 23<sup>rd</sup> Floor, 25 Canada Square, London E14 5LQ respectively.