

Southern Pacific Funding I Limited

Report and Financial Statements

30 November 2009

Registered Number 3271135

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COMPANIES HOUSE

Southern Pacific Funding I Limited

Registered No 3271135

Director

L Brandon

Secretary

TMF Corporate Administration Services Limited
1st Floor
Pellipar House
London
EC4R 2RU

Auditors

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

Registered Office

First Floor
No 6 Broadgate
London
EC2M 2QS

Directors' report

The director presents his report and the audited financial statements for the year ended 30 November 2009

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 securitisation by the parent

Business review

The profit and loss account for the year ended 30 November 2009 is set out on page 8. The Company has made a loss after tax of £93,000 (2008 – profit of £118,000) from financing mortgage loans originated by its parent Southern Pacific Mortgage Limited prior to securitisation of these mortgage loans.

On 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.

At 30 November 2009 the company held £11m of mortgage loans. Given the current economic environment the director is considering the future of the company.

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 was placed into administration.

Dividend

The director does not recommend the payment of a dividend for the current year (2008 – £nil).

Going concern

The director is currently considering the best course of action to take to realise the value of the remaining assets of the company. The company is currently funded by Storm Funding Limited (in administration), however, the director understands that the Joint Administrators are currently reviewing their options in respect of the outstanding debt. The director acknowledges that there can be no certainty that funding will continue to be made available although, at the date of approval of these financial statements such funding is continuing to be provided. Given the current continued availability of funding, the director considers that the company will be able to continue in operational existence for the foreseeable future.

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, there is 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. 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' report

Directors

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

P Chambers	(resigned 14 October 2009)
A Attia	(appointed 17 March 2008, resigned 12 January 2009)
S A Staid	(appointed 17 March 2008, resigned 5 January 2009)
L Brandon	(appointed 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 (2008 – nil days).

Principal risks and uncertainties

Financial instrument risks

The financial instruments held by the Company comprise mortgages, borrowings, cash and various other items (such as trade debtors, trade creditors etc) 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.

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 – where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Directors' report

Principal risks and uncertainties (continued)

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 each person who was a 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.



Lee Brandon

Director

Date 10 November 2010

Statement of director's responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 directors must not approve the financial statements unless they are 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 directors are 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 directors are 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. 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.

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 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18. 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 directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are 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 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 directors, and the overall presentation of the financial statements.

Independent auditors' report

to the members of Southern Pacific Funding I Limited

Opinion on 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 2009 and of its loss 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.

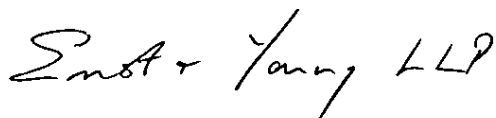
Opinion on other matter prescribed by the Companies Act 2006

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

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 directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Andrew Woosey (Senior Statutory Auditor)

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

London

Date 10 Nov 2010

Profit and loss account

for the year ended 30 November 2009

	<i>Notes</i>	<i>2009</i> <i>£000</i>	<i>2008</i> <i>£000</i>
Interest receivable and similar income	2	45	330
Interest payable and similar charges	3	(77)	(120)
Net interest (payable)/ receivable		(32)	210
Other operating income	4	1	4
Net operating (expenses)/ income		(31)	214
Operating expenses	5	(62)	(96)
(Loss)/ profit on ordinary activities before taxation		(93)	118
Tax on (loss)/ profit on ordinary activities	7	—	—
(Loss)/ profit on ordinary activities after taxation	13	(93)	118

The loss for the year was derived from continuing operations

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £93,000 in the year ended 30 November 2009 (2008— profit of £118,000)

The notes on pages 11 to 17 form part of these financial statements

Balance sheet

at 30 November 2009

	Notes	2009 £000	2008 £000
Current assets			
Debtors			
Amounts falling due after one year	8	1,143	1,192
Amounts falling due within one year	10	462	1,112
Cash at bank and in hand		114	174
		<u>1,719</u>	<u>2,478</u>
Creditors: amounts falling due within one year	11	(3,231)	(3,897)
		<u>(1,512)</u>	<u>(1,419)</u>
Net assets			
Capital and reserves			
Called up share capital	12	–	–
Profit and loss account	13	(1,512)	(1,419)
		<u>(1,512)</u>	<u>(1,419)</u>
Shareholder's funds	14	(1,512)	(1,419)

The notes on pages 11 to 17 form part of these financial statements

These financial statements were approved and signed by the director



Lee Brandon

Director

Date 10 November 2010

Cash flow statement

For the year ended 30 November 2009

	<i>Notes</i>	<i>2009 £000</i>	<i>2008 £000</i>
Net cash (outflow)/ inflow from operating activities	15	(60)	4
Taxation			
Corporation tax paid		—	—
Net cash (outflow)/ inflow before management of liquid resources and financing		(60)	4
(Decrease)/increase in cash in year		(60)	4
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in year		(60)	4
Change in net cash resulting from cash flows		(60)	4
Movement in net funds		(60)	4
Opening net funds		174	170
Closing net funds		114	174

The notes on pages 11 to 17 form part of these financial statements

Notes to the financial statements

at 30 November 2009

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

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 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 director is currently considering the best course of action to take to realise the value of the remaining assets of the company. The company is currently funded by Storm Funding Limited (in administration), however, the director understands that the Joint Administrators are currently reviewing their options in respect of the outstanding debt. The director acknowledges that there can be no certainty that funding will continue to be made available although, at the date of approval of these financial statements such funding is continuing to be provided. Given the current continued availability of funding, the director considers that the company will be able to continue in operational existence for the foreseeable future.

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, there is 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. 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 this note.

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.

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).

Notes to the financial statements

at 30 November 2009

1. Accounting policies (continued)

Provisions (continued)

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

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 consider 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

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

	2009 £000	2008 £000
On mortgage loans	44	313
On cash balances	1	17
	<u>45</u>	<u>330</u>

Notes to the financial statements

at 30 November 2009

3. Interest payable and similar charges

	2009 £000	2008 £000
Interest payable on group related entity loan	77	120

4. Other operating income

	2009 £000	2008 £000
Redemption fees	–	1
Sundry fee income	1	3
	<u>1</u>	<u>4</u>

5. (Loss)/ profit on ordinary activities before taxation

(Loss)/ profit on ordinary activities before taxation is stated after charging

	2009 £000	2008 £000
Auditors' remuneration	–	–
Provision for mortgage losses	43	15

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

6. Information regarding directors and employees

The Company has no employees (2008 – none) The directors received no remuneration from the Company during the year (2008 – £nil)

7. Taxation

(a) Analysis of tax charge in the year

	2009 £000	2008 £000
<i>Current tax</i>		
UK corporation tax on profits of the year	–	–
Total current tax (note 7(b))	<u>–</u>	<u>–</u>
<i>Deferred tax</i>		
Origination and reversal of timing difference	–	–
Tax on profit on ordinary activities	<u>–</u>	<u>–</u>

Notes to the financial statements

at 30 November 2009

7. Taxation (continued)

(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% (2008 – 28.67%). The differences are explained below

	2009 £000	2008 £000
(Loss)/ profit on ordinary activities before tax	(93)	118
(Loss)/ profit on ordinary activities multiplied by the standard rate of corporation tax of 28% (2008 – 28.67%)	(26)	34
<i>Effects of</i>		
Tax losses carried forward but not recognised	26	–
Utilisation of tax losses	–	(34)
Current tax charge for year	–	–

Losses of £868,124 (2008 £775,419) resulting in a deferred tax asset of £243,075 (2008 £222,280) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the company's future profitability.

8. Mortgage loans – net balances

	Mortgages £000	Mortgage loss provision £000	Total £000
At beginning of the year	1,210	(18)	1,192
Net movement	(6)	(43)	(49)
At end of the year	1,204	(61)	1,143

9. Debtors: amounts falling due after one year

	2009 £000	2008 £000
Mortgage loans		
Net balances (note 8)	1,143	1,192

Notes to the financial statements

at 30 November 2009

10. Debtors: amounts falling due within one year

	2009	2008
	£000	£000
Other debtors	—	472
Amounts owed by group undertakings	462	640
	<u>462</u>	<u>1,112</u>

11. Creditors: amounts falling due within one year

	2009	2008
	£000	£000
Amounts owed to group undertakings	2,593	1,838
Accruals	—	217
Other creditors	638	1,842
	<u>3,231</u>	<u>3,897</u>

The bank loans and overdrafts are secured by a fixed charge over the assets of the Company

12. Called up share capital

	2009	2008
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	2009	2008
	£	£
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

13. Profit and loss account

	2009	2008
	£000	£000
Profit and loss account brought forward	(1,419)	(1,537)
Retained (loss)/ profit for the year	(93)	118
	<u>(1,512)</u>	<u>(1,419)</u>

Notes to the financial statements

at 30 November 2009

14. Reconciliation of shareholder's funds

	2009 £000	2008 £000
Opening shareholder's funds	(1,419)	(1,537)
Retained (loss)/ profit for the year	(93)	118
Closing shareholder's funds	(1,512)	(1,419)

15. Reconciliation of operating loss to cash generated by operations

	2009 £000	2008 £000
Operating (loss)/ profit from continuing operations	(93)	118
Decrease in receivables	699	2,198
Decrease in payables	(666)	(2,312)
Net cash (outflow)/ inflow from ordinary operating activities	(60)	4

16. Reconciliation of net cash flow to movement in net fund

	2009 £000	2008 £000
(Decrease)/ increase in cash in the year	(60)	4
Change in net debt resulting from cash flows	(60)	4
Net funds at start of the year	174	170
Net funds at end of the year	114	174

Notes to the financial statements

at 30 November 2009

17. Related party transactions

During the year, Southern Pacific Funding I Limited has been charged the following amounts of interest by the below entities and the amounts outstanding at the end of the year was

	<i>Interest received 2009 £000</i>	<i>Interest paid 2009 £000</i>	<i>Amounts due from related parties 2009 £000</i>	<i>Amounts owed to related parties 2009 £000</i>
Southern Pacific Mortgage Ltd	–	–	40	–
Capstone Mortgage Services Ltd	–	–	422	–
Eurosail 2006-4 NP Plc	–	–	–	1,333
Eurosail 2007-2 Plc	–	–	–	51
Eurosail UK 2007-3 BL Plc	–	–	–	1
Storm Funding Ltd (in administration)	–	77	–	1,208
Total related party	–	77	462	2,593

	<i>Interest received 2008 £000</i>	<i>Interest paid 2008 £000</i>	<i>Amounts due from related parties 2008 £000</i>	<i>Amounts owed to related parties 2008 £000</i>
Southern Pacific Mortgage Ltd	–	–	–	431
Capstone Mortgage Services Ltd	–	–	640	–
Eurosail UK 2007-3 BL Plc	–	–	–	1
Storm Funding Ltd (in administration)	–	120	–	1,406
Total related party	–	120	640	1,838

18. 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 undertaking 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 Resetfan Limited registered in England and Wales. The consolidated financial statements of these groups are available from 23rd Floor, 25 Canada Square, London E14 5LQ respectively.