Southern Pacific Funding 3 Limited

Report and Financial Statements

30 November 2011

Registered No 03599748

Director
L Brandon

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

Registered Office
Level 23
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 2011

Principal activities

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

Business review and future developments

The Company traded at an operating profit before tax for the current year of £3,512,844 (2010 loss £3,104,500) on the loans it held during the year

On 22 December 2010, the Company sold £8m of mortgage loans to an external party No gains or losses have been recognised as this has been fully provided for

At 30 November 2011 the Company held £33m of mortgage loans Given the current economic environment the Director is considering the future of the Company in order to maximise realisations of the value of its assets However, there is no current intention to liquidate 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 (2010 £nil)

Principal risks and uncertainties

Financial instrument risks

The financial instruments held by the Company comprise mortgages, borrowings, cash 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

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 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 the recoverability of intercompany receivables 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

Director's report

Principal risks and uncertainties (continued)

Liquidity risks

The Company manages its liquidity in conjunction with its funding provider, Mable Commercial 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 Mable Commercial Funding Limited (in administration) due to an increase in the level of losses on the redemption of some loans The Joint Administrators of Mable Commercial Funding Limited have currently no intention to demand payment of the debt in the near future, however they are currently reviewing their options in respect of the outstanding debt and continue to work in conjunction with the Company to enable the Company to liquidate its assets in an orderly fashion

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 undertaking, Lehman Brothers Holdings Inc , filed for Chapter 11 bankruptcy protection

On 23 September 2008 the intermediate parent undertaking and principal funder of the Company Mable Commercial Funding Limited (in administration) was placed into administration

As a result of the suspension of the immediate parent company's mortgage origination activities and the bankruptcy of its ultimate parent, it is the Director's intention to enter into an orderly wind down of its assets and operations and/or seek a disposal of its assets and business

The Company continues to have amounts owed to Mable Commercial Funding Limited (in administration) in which it is currently in breach of the terms of the funding agreement with Mable Commercial Funding Limited (in administration) due to an increase in the level of losses on the redemption of some loans As at 30 November 2011, the Company owes Mable Commercial Funding Limited (in administration) £42 9 million that is payable on demand In addition the Company also owes other related group undertakings, Southern Pacific Personal Loans Limited, Southern Pacific Mortgage Limited and Resetfan Limited, which are also payable on demand

The Director understands that the Joint Administrators of Mable Commercial Funding Limited (in administration) are currently reviewing their options in respect of the outstanding debt and the Directors of Southern Pacific Mortgage Limited and Resetfan Limited have confirmed that they have no current intention to demand payment of its debt in the immediate future In addition the Company has an £8 9m payable to a related undertaking, Southern Pacific Personal Loans Limited ("SPPL") which intends to enter into liquidation in the immediate future SPPL in turn has a £10 2m payable to Southern Pacific Mortgage Limited Should SPPL demand payment of the amount due, then Southern Pacific Mortgage Limited as the parent undertaking of SPF3 and largest creditor of SPPL intends to use the amounts it is owed by SPPL to negotiate the settlement of the intercompany obligations Currently, no demand for payment from SPPL has been received

Director's report

Going concern (continued)

Whilst the Director recognises there is a material uncertainty over whether Mable Commercial Funding Limited (in administration) and the other creditors will demand repayment of the debt in the next 12 months which could accelerate the wind down of the Company's business, based on enquiries with Joint Administrators and the Directors of the other creditors, there is a reasonable expectation that the debt will not be called

Based on the current situation the Director believes that it remains appropriate to prepare the financial statements on a going concern basis However, 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 due to the availability of resources and funding as at the date of approval of these accounts 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'

Director

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

L Brandon

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 the supplier at the outset It is the policy of the Company to abide by the agreed terms of payment There are nil creditor days of suppliers' invoices outstanding at the year end (2010 nil days)

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 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 provisions of Section 485 of the Companies Act 2006

L Brandon

Director

Date 28 August 2012

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 him 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 3 Limited

We have audited the financial statements of Southern Pacific Funding 3 Limited for the year ended 30 November 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 16 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 Director's 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 2011 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 modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern The conditions explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was 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 3 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

Amarjit Singh (Senior Statutory Auditor)

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

London

Date 28 AUG 2012

Profit and loss account

for the year ended 30 November 2011

	Notes	*2011* *£000*	*2010* *£000*
Interest receivable and similar income	2	1,691	3,528
Interest payable and similar charges	3	(819)	(920)
Net interest receivable		872	2,608
Other operating income	4	3,749	248
Total operating income		4,621	2,856
Operating expenses		(1,108)	(5,960)
Profit /(loss) on ordinary activities before taxation	5	3,513	(3,104)
Tax on profit /(loss) on ordinary activities	7	21	3,320
Retained profit for the year	13	3,534	216

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 £3,534,000 in the year ended 30 November 2011 (2010 £216,000)

The notes on pages 10 to 16 form part of these financial statements

Balance sheet

at 30 November 2011

	Notes	*2011* *£000*	*2010* *£000*
Assets			
Debtors			
Amounts falling due after one year	9	31,377	41,139
Amounts falling due within one year	10	3,765	2,446
Cash at bank and in hand		2,406	603
		37,548	44,188
Creditors. amounts falling due within one year	11	(56,089)	(66,263)
Net liabilities		(18,541)	(22,075)
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account'	13	(18,541)	(22,075)
Shareholder's deficit	14	(18,541)	(22,075)

The notes on pages 10 to 16 form part of these financial statements

These financial statements were approved and signed by Director

L Brandon

Director

Date 28 August 2012

Notes to the financial statements

at 30 November 2011

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

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Notes to the financial statements

at 30 November 2011

1. Accounting policies (continued)

Going concern (continued)

Based on the current situation the Director believes that it remains appropriate to prepare the financial statements on a going concern basis However, 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 due to the availability of resources and funding as at the date of approval of these accounts 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, the credit risk makes recovery doubtful

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 a wholly owned subsidiary and its intermediate parent undertaking, Resetfan 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 Resetfan 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 transactions 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

Notes to the financial statements
at 30 November 2011

1. Accounting policies (continued)

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

2. Interest receivable and similar income

	2011	*2010*
	£000	*£000*
On mortgage loans	1,645	3,042
On cash balances	24	3
On tax receivable	-	301
Other	22	182
	1,691	3,528

3. Interest payable and similar charges

	2011	*2010*
	£000	*£000*
Intercompany interest payable	819	920

4. Other operating income

	2011	*2010*
	£000	*£000*
Sundry fee income	194	248
Intercompany write off	3,555	-
	3,749	248

Notes to the financial statements

at 30 November 2011

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

This is stated after charging/(crediting)

	2011	*2010*
	£000	*£000*
Auditor's remuneration – audit services	36	16
Provision for mortgage losses (note 8)	(486)	88
Write off	-	1,049
Mortgage losses	1,215	4,352

6. Information regarding director and employees

The Company has no employees (2010 none) The Director received no remuneration from the Company during the year (2010 £nil) The Director's remuneration is borne by Southern Pacific Mortgage Limited and is disclosed in the financial statements of that company

7. Tax on Profit/(loss) on ordinary activities

Analysis of tax charge in the year

	2011	*2010*
	£000	*£000*
Current tax		
UK corporation tax on profit of the year	-	-
Adjustment in respect of prior periods	(21)	(3,382)
Total current tax (note 7(b))	(21)	(3,382)
Deferred tax		
Current year charge (note 15)	-	62
Tax on Profit/(loss) on ordinary activities	(21)	(3,320)

Notes to the financial statements

at 30 November 2011

7. Tax on Profit/(loss) on ordinary activities (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 26 67% (2010 28%) The differences are explained below

	2011 *£000*	*2010* *£000*
Profit /(loss) on ordinary activities before tax	3,513	(3,104)
Profit/ (loss) on ordinary activities multiplied by the standard rate of corporation tax of 26 67% (2010 28%)	937	(869)
Effects of		
Utilisation of tax losses	-	832
Prior year adjustment	(21)	(3382)
(Income)/expense not deductible for tax purposes	(948)	37
Tax losses carried forward not utilised	11	-
	(21)	(3,382)

Losses of £3,014,447 resulting in a deferred tax asset of £753 612 have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability

The reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and was effective from 1 April 2011 A further reduction form 26% to 24% was substantively enacted in March 2012 and will be effective from 1 April 2012

In addition, the Government announced its intention to further reduce the UK corporation tax rate from 23% and to 22% from 1 April 2014 The aggregate impact of the proposed reductions in the corporation tax rate would reduce the deferred tax asset by £90,434

8. Mortgage loans – net balances

	Mortgages *£000*	*Mortgage loss provision* *£000*	*Total* *£000*
At beginning of the year	47,247	(6,108)	41,139
Loan sale	(8,025)	3,552	(4,473)
Net movement	(5,745)	456	(5,289)
At end of the year	33,477	(2,100)	31,377

Net mortgage loan of £31,377,000 (2010 £41,139,000) are held as security against loans from group undertakings referred to in note 11

Notes to the financial statements

at 30 November 2011

9. Debtors: amounts falling due after one year

	2011	*2010*
	£000	*£000*
Mortgage loans		
Net balances (note 8)	31,377	41,139

10. Debtors: amounts falling due within one year

	2011	*2010*
	£000	*£000*
Amounts owed by group undertakings	3,561	6
Other debtors	22	302
Corporation tax	182	2,138
	3,765	2,446

11. Creditors: amounts falling due within one year

	2011	*2010*
	£000	*£000*
Accruals	279	1,560
Amounts owed to group undertakings	55,648	64,703
Other Creditors	162	-
	56,089	66,263

Certain amounts owed to group undertakings of £42 863,000 (2010 £52,197,000) are secured by a fixed charge over the assets of the Company

12. Issued share capital

	2011	*2010*
	£	*£*
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

Notes to the financial statements

at 30 November 2011

13. Profit and loss account

	2011 £000	2010 £000
Retained loss brought forward	(22,075)	(22,291)
Retained profit for the year	3,534	216
Retained loss carried forward	(18,541)	(22,075)

14. Reconciliation of shareholder's deficit

	2011 £000	2010 £000
Opening shareholder's deficit	(22,075)	(22,291)
Retained profit for the year	3,534	216
Closing shareholder's deficit	(18,541)	(22,075)

15. Deferred taxation

	2011 £000	2010 £000
Other short term timing differences	-	62
Provision at start of year	-	62
Deferred tax charge in the profit and loss account (note 7)	-	(62)
Provision at the end of year	-	-

16. Ultimate parent undertaking

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

The ultimate parent undertaking of Southern Pacific Funding 3 Limited is Lehman Brothers Holdings Inc , which is incorporated in the State of Delaware in the United States of America On 15 September 2008, 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 are available at Level 23, 25 Canada Square, London, E14 5LQ