MORTGAGE
SERVICING
SPECIALISTS

# Acenden Limited
# (Formerly Capstone Mortgage Services Limited)

## Annual Report and Financial Statements

## 30 November 2010

REGISTRATION No 05381786

## Directors

A Attia
C S Miller
J A Lundgren
J A Pool (non-executive)
S A Staid (non-executive)

## Secretary

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

## Auditors

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

## Bankers

Barclays Bank PLC
Cheapside Business Centre
155 Bishopgate
London EC2M 3XA

## Solicitors

Clifford Chance
10 Upper Bank Street
London EC14 5JJ

Taylor Wessing
5 New Street Square
London EC4A 3TW

## Registered Office

St Johns Place
Easton Street
High Wycombe HP11 1NL

# Directors' report

The directors present their report and the audited financial statements, with the Company for the year ended 30 November 2010

## Results and dividends

The profit for the year after taxation is £5 6 million (2009 profit of £1 4 million) The directors do not recommend the payment of a dividend for the year (2009 £nil)

## Principal activities and review of the business

The principal activity of the company continues to be the provision of mortgage administration services to lenders and investors in the UK and Ireland The company is authorised and regulated by the Financial Services Authority and licensed and regulated by the Office of Fair Trading

2010 has proved to be a year of greater stability after the recession of 2009 and the aftermath of the banking crisis The market has been stable for much of the year, however both demand for mortgage borrowing and the supply of funds for lending has continued to be markedly constrained Low interest rates continued to prevail in 2010, with the Bank of England base rate unchanged all year at 0 50% and 3-month LIBOR increasing only slightly to 0 74% allowing the majority of borrowers to enjoy low mortgage interest rates

UK home prices were fairly steady, but showed some signs of weakness as the average prices dropped 1 4% during the year Both mortgage arrears and repossessions figures fell throughout the year According to the Council of Mortgage Lenders, the number of loans with arrears above 2 5% of the loan balance fell 13% as of December 2010 from the year before, while repossession figures for the same period were down 24% Acenden's serviced portfolio generally followed these industry trends as our 90+ day arrears cases dropped 16% from last year end and our possessions in the year dropped 61%

For Acenden, 2010 was a year of many accomplishments for our business

In June, the Company completed its balance sheet restructuring Related-party debts were re-negotiated and/or settled, leaving the Company with a £7 9 million three-year term loan, and access to a £5.0 million working capital facility Management also took a significant minority interest in the common shares of the Company See note 13 and 16 for further details

Several key hires were made through out the year The executive leadership team was rounded out by bringing in experienced mortgage executives in the roles of Chief Operating Officer, Chief Financial Officer, Commercial Director and IT Director Other key senior management positions were added to position the Company for growth in the third party mortgage administration industry in the UK and Ireland

In July, the Company announced its intention to rebrand as Acenden Limited, a Mortgage Servicing Specialist in the UK and Irish markets That rebranding was completed in November when we officially changed our name and began trading as Acenden Limited

Throughout the course of the year, Acenden continued to invest in enhancing our mortgage servicing capabilities Several significant accomplishments were achieved, including the consolidating and upgrading our core servicing system, investment in improving our hardware, enhancements to our data warehouse and analytic and reporting capabilities, and redevelopment of our website, including an enhanced borrower site launched in January 2011 enabling self-service capabilities including online payments In addition to these technological enhancements, Acenden successfully boarded two portfolios of UK mortgages from two separate third party platforms, and established an office in Ireland and boarded our first Irish portfolio

# Directors' report

The Company's key financial and other performance indicators during the year were as follows

| | *2010* | *2009* | *Change* |
|---|---|---|---|
| | *£000* | *£000* | *%* |
| Turnover | 40,175 | 39,840 | 0 8% |
| Profit after tax | 5,554 | 1,403 | 296% |
| Equity shareholder funds | 23,448 | (35,505) | |
| Current assets as % of current liabilities | 290% | 111% | 185% |
| Average no of employees | 437 | 433 | 0 9% |

Turnover increased slightly from prior year's as a result of new servicing portfolios acquired in the year and an increase in revenue from other intermediation activities provided to our existing client base

Profit after tax improved by 296% compared to prior year primarily due to the increase in turnover noted above and significant reductions in financing costs due to the balance sheet restructuring In addition, the Company benefited from a tax write back of £3 0 million as a result of the Group losses allocated to it for prior years

Equity shareholder funds were restored to a positive £23 4 million from a negative £35 5 million at the end of the previous year as a result of the balance sheet restructuring and the year's profit

The Company's "quick ratio" (current assets as a percentage of current liabilities) increased due to the reduction in debt driven by the balance sheet restructuring coupled with an increase in cash balances from operations

The average number of employees increased by 0 9% during the year, largely attributable to the strengthening of the executive and senior management teams noted above

## Principal risks and uncertainties

The directors and management continue to oversee the financial, regulatory, compliance, and operational performance of the business by regular Board, Risk Committee and management meetings and other governance procedures

The principal risks and uncertainties facing the Company are broadly grouped as operational, financial and regulatory risks

### Operational Risks

Operational risks are inherent in the Company's business as it depends on the ability to process a large number of transactions efficiently and accurately Losses can result from inadequate or failed internal control processes and systems, human error, fraud or from external events that interrupt normal business operations

The Company has implemented a robust operational risk management policy and framework aimed at identifying processes exposed to operational risk These processes are regularly examined to continually identify, assess and test internal controls aimed at mitigating operational risks A substantial amount of resource and activity has been dedicated to the ongoing maintenance of this operational risk management framework, to developing efficient and effective procedures and processes and to the training of all staff in the areas of risk management

Our operational risk management policy, framework, and related internal controls should be effective in most circumstances in mitigating the operational risks inherent in the Company's business

# Directors' report

### Financial Risks

The Company's principal financial assets include cash, trade debtor and other debtor balances that arise directly from its operations

*Credit Risks*

The Company's credit risk is primarily attributable to its trade and other debtor balances The Company's policies aim at minimising such risks, including the requirement for upfront payment for services rendered on behalf of its clients Debtor balances are represented in the balance sheet net of allowances for doubtful debtors An allowance for impairment is established when there is an identification of an event of loss which is evidence of a reduction in the recoverability of the balances The Directors regularly review the cash flow from its trade debtors and assess the recoverability of all debtor balances to minimise its exposure to credit risk

*Liquidity Risk*

The Company generally has a low exposure to liquidity risk as cash flows from its mortgage servicing and other intermediation activities cover its ongoing operating costs These net cash flows along with the cash balances maintained are sufficient to cover any short-term liquidity issues that may arise Nonetheless, the Directors closely monitor the cash flows and ongoing liquidity position to ensure the Company is not exposed to liquidity risks

### Regulatory Risk

This is the risk that the Company is not able to comply with regulatory requirements To help mitigate this risk, the Company has an independent compliance department that continually partners with the business to help ensure its processes are compliant with regulatory requirements The compliance team provides regular, independent reports to both the Risk Committee and the Board Additionally, the directors and members of the compliance team communicate and share information regularly with the regulatory authorities, stay up to date with proposed changes in regulations and engage in various industry focus groups to better understand the implications of existing regulations and any potential changes in regulations

## Future development

The director's management policies are aimed at growing the Company's servicing portfolio both in the UK and Ireland

## Directors

The directors who served during the year and after the year end, were as follows

J A Pool
A Attia
S A Staid
J A Lundgren (appointed 12 February 2010)
C S Miller (appointed 6 December 2010)

## Going concern

The Company's business activities together with factors likely to affect its future development, its financial position, risk management objectives and details of its financial risks are described in the business review on page 2 to 4

# Directors' report

The dırectors have carefully consıdered the Company's cash and earnıngs forecast takıng ınto account possıble changes ın tradıng performance The dırectors have a reasonable expectatıon that the Company has adequate resources to contınue ın operatıonal exıstence for the foreseeable future

The dırectors for these reasons contınue to adopt the goıng concern basıs of accountıng ın preparıng the annual financıal statements

## Events since the balance sheet date

On 18 November 2010, the board approved the recommendatıon to re-organıse and streamlıne certaın dıvısıon's responsıbılıtıes and resources On 1 February 2011, the company announced the re-organısatıon and realıgnment of these dıvısıons The company provıded the sum of £252,180 to cover the expected redundancy payments to the ındıvıduals affected

## Policy and practice on payment of creditors

It ıs the Company's polıcy to agree terms of payment wıth supplıers when agreeıng the terms of each transactıon and to abıde by those terms Standard terms provıde for payment of all ınvoıces wıthın 45 days after the date of the ınvoıce, except where dıfferent terms have been agreed wıth the supplıer at the outset It ıs the polıcy of the Company to abıde by the agreed terms of payment There are no past due supplıers' ınvoıces outstandıng at the year end (2009 £nıl)

## Disabled employees

Applıcatıons for employment by dısabled persons are always properly consıdered, ıncludıng takıng ınto account any reasonable workplace adjustments In the event of members of staff becomıng dısabled durıng employment every effort ıs made to support theır return to work ıncludıng makıng approprıate adjustments to facılıtıes and workıng practıces It ıs the polıcy of the Company that the traınıng, career development and promotıon opportunıtıes for dısabled persons should, as far as reasonably practıcable, be ıdentıcal wıth that of other employees

## Employee Involvement

No compulsory or voluntary Informatıon & Consultatıon agreement under the Informatıon and Consultatıon of Employees Regulatıons 2004 exısts and no requests for such were made by employees durıng the year

The voluntary polıcy of provıdıng employees wıth ınformatıon about the Company's performance has been contınued through regularly publıshed communıcatıons to all staff In addıtıon, an all-Company employee survey was launched ın 2010 and department level feedback was gıven to staff members The Company also hosted an annual kıck off meetıngs between management and employees to enable the exchange of ınformatıon and ıdeas ıncludıng the sharıng of ınformatıon about busıness performance and plans All of these actıvıtıes are expected to contınue ın 2011 as well as ıncreasıng the communıcatıon and alıgnment around busıness strategy and goals at both team and ındıvıdual levels

# Directors' report

## 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 fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

## Reappointment of auditors

A resolution to appoint auditors will be put to the members at the Annual General Meeting

Approved by the board of directors and signed on behalf of the board

JAPool

Director J A POOL

22/02/2011

# Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 judgements and 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, and
- 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 proper 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 Acenden Limited (Formerly Capstone Mortgage Services Limited)

We have audited the financial statements of Acenden Limited for the year ended 30 November 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and related notes 1 to 25 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 6, 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

### 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

### 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

# Independent auditors' report

**To the members of Acenden Limited (Formerly Capstone Mortgage Services 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 directors' 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 22 Feb 2011

# Profit and loss account

**for the year ended 30 November 2010**

| | Notes | *2010* *£000* | *2009* *£000* |
|---|---|---|---|
| Fees receivable and related income | 1 | 40,175 | 39,840 |
| Operating and administration expenses | | (35,131) | (36,244) |
| ***Operating profit on ordinary activities before interest and taxation*** | | **5,044** | **3,596** |
| Gain/(loss) on write-off of fixed assets | | 27 | (135) |
| Restructuring costs | | (925) | (171) |
| Interest receivable and similar income | 2 | 4 | 11 |
| Interest payable and similar charges | 3 | (150) | (1,186) |
| Movement in provision for intergroup balances | | - | (55) |
| ***Profit on ordinary activities before taxation*** | 4 | 4,000 | 2,060 |
| Tax on profit on ordinary activities | 8 | 1,554 | (657) |
| ***Profit for the financial year*** | 15 | 5,554 | 1,403 |

The results are in respect of continuing operations

There are no recognised gains or losses other than the profit on ordinary activities after taxation stated above

The notes on pages 13 to 25 form part of these financial statements

# Balance sheet

**at 30 November 2010**

| | Notes | *2010* *£000* | *2009* *£000* |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Tangible assets | 9 | 2,950 | 2,693 |
| ***Current assets*** | | | |
| Debtors | | | |
| Amounts falling due within one year | 10 | 15,386 | 24,736 |
| Cash at bank | | 24,977 | 12,420 |
| | | 40,363 | 37,156 |
| ***Creditors:*** amounts falling due within one year | 11 | (13,919) | (33,526) |
| ***Net current assets*** | | 26,444 | 3,630 |
| ***Total assets less current liabilities*** | | 29,394 | 6,323 |
| ***Creditors:*** amounts falling due after more than one year | 12 | (5,946) | (41,828) |
| ***Net assets /(liabilities)*** | | 23,448 | (35,505) |
| ***Capital and reserves*** | | | |
| Called up share capital | 13 | 250 | 250 |
| Share Premium Account | 14 | 8 | - |
| Reserves | 16 | 53,391 | - |
| Profit and loss account | 15 | (30,201) | (35,755) |
| ***Shareholders' funds*** | 17 | 23,448 | (35,505) |

The notes on pages 13 to 25 form part of these financial statements

These financial statements were approved by the board of directors and were signed on its behalf by

Director J A POOL
22\02\2011



COMPANY REGISTRATION NO 05381786

# Statement of cash flows

**for the year ended 30 November 2010**

| | Notes | 2010 £000 | 2009 £000 |
|---|---|---|---|
| ***Net cash flows from operating activities*** | 18 | 14,281 | (573) |
| **Capital expenditure and financial investment** | | | |
| Investment in fixed assets | | (1,732) | (2,338) |
| **Financing** | | | |
| Proceeds from share issuance | | 8 | |
| ***Increase / (Decrease) in cash*** | | 12,557 | (2,911) |

## Reconciliation of net cash flow to movement in net funds

| | Notes | 2010 £000 | 2009 £000 |
|---|---|---|---|
| Increase/Decrease in cash | | 12,557 | (2,911) |
| Change in net cash resulting from cash flows | | 12,557 | (2,911) |
| Movement in net funds | | 12,557 | (2,911) |
| Opening net funds | | 12,420 | 15,331 |
| ***Closing net funds*** | 19 | 24,977 | 12,420 |

The notes on pages 13 to 25 form part of these financial statements

# Notes to the financial statements

**at 30 November 2010**

## 1. Accounting policies

***Basis of accounting***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

***Fees and interest income***

Fees receivable represents fees earned by the Company for providing mortgage administration services Other related income represents amounts recharged to group related entities which include a mark up for overhead costs incurred on their behalf

Interest receivable represents interest earned on cash assets, these are accounted for on an accrual basis

Receipts and payments of fees are accounted for on an accruals basis

***Expenses***

Receipts and payments of expenses are accounted for on an accruals basis

***Tangible fixed assets and depreciation***

Tangible fixed assets are stated at cost less accumulated depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments (beginning the month following acquisition) over their estimated useful economic lives as follows

| | | |
|---|---|---|
| Leasehold improvements | – | lesser of 15 years or lease term |
| Furniture, fixtures and office equipment | – | 10% |
| Computer equipment | – | 20 - 33% |
| Computer systems | – | 33% |

***Foreign Currency Translation***

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction and recorded in sterling All differences are recorded in the profit or loss account as exchange loss or profit

As at the reporting date, the assets and liabilities of overseas branch are translated at the rate of exchange on the balance sheet date where the asset or liabilities have not been recorded in sterling at the transaction date

***Taxation***

The charge for taxation is based on the profit for the year and takes into account group losses allocated to the Company and 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 directors 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

# Notes to the financial statements

**at 30 November 2010**

## 1. Accounting policies (continued)

***Leasing commitments***

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term

***Financial instruments***

Financial assets are classified in the following categories Cash at bank and debtors Financial assets are recorded in these respective categories upon initial recognition Assets within the 'cash at bank' category comprise term deposits, cash at banks and in hand with an original maturity of three months or less

***Pension contributions***

The Company operates a stakeholder pension plan with company contributions rates of between 7% and 10% of basic salary

***Turnover***

The Company's income and trade are wholly within the UK and the Republic of Ireland, and within a single market sector therefore no segmental analysis has been presented

## 2. Interest receivable and similar income

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Other interest received | 4 | 11 |
| | 4 | 11 |

## 3. Interest payable and similar charges

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Intergroup interest payable | - | 926 |
| Interest on subordinated loan | - | 260 |
| Interest on Term loans | 103 | - |
| Working capital facility | 47 | - |
| | 150 | 1,186 |

## 4. Profit on ordinary activities before taxation

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Profit on ordinary activities before taxation is stated after charging | | |
| Auditor remuneration (see note 5) | 34 | 33 |
| Depreciation | 1,475 | 920 |
| Operating leases | | |
| – Land and buildings | 949 | 1,788 |
| – Other | 239 | 110 |
| Gain/Loss on write-off of tangible fixed assets | (27) | 135 |
| Restructuring costs | 925 | 171 |
| Redundancy costs | 252 | - |
| Movement in provision for inter- company balances | - | 55 |

# Notes to the financial statements

**at 30 November 2010**

## 5. Auditors remuneration

The remuneratıon of the audıtors ıs as follows

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Audıt of financıal statements | 34 | 33 |
| | 34 | 33 |

## 6. Staff numbers and costs

The average number of employees, ıncludıng dırectors, durıng the year was 437 (2009 433) and they were employed ın the followıng areas of the busıness

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Sales and marketıng | 3 | – |
| Admınıstratıon | 434 | 433 |
| | 437 | 433 |

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Wages and salarıes | 13,978 | 12,840 |
| Socıal securıty costs | 1,489 | 1,226 |
| Other pensıon costs | 847 | 731 |
| | 16,314 | 14,797 |

## 7. Information regarding directors

At 30 November 2010, three dırectors of the company were remunerated by the Company The remaınıng dırectors were remunerated by Lehman Brothers Ltd (In admınıstratıon) ın theır capacıty as employees of thıs entıty Included wıthın wages and salarıes are the dırectors remuneratıon of £377,114 (2009 £10,327) The hıghest paıd dırector's total emoluments were £212,245

Included ın the total remuneratıon dısclosed above ıs a total of £19,417 beıng pensıon contrıbutıons ın respect of the dırectors The pensıon contrıbutıon for the hıghest paıd dırector was £15,584

# Notes to the financial statements

**at 30 November 2010**

## 8 Tax on ordinary activities

(a) Analysis of tax charge in the year

| | 2010 £000 | 2009 £000 |
|---|---|---|
| *Current tax* | | |
| UK corporation tax on the profits for the year | 1,004 | 212 |
| Adjustments in respect of previous periods | (3,029) | – |
| Overseas tax suffered | 81 | – |
| Tax on profit on ordinary activities (note 8(b)) | (1,944) | 212 |
| *Deferred tax* | | |
| Origination and reversal of timing differences | 315 | 444 |
| Effect of rate change | 75 | – |
| Tax on profit on ordinary activities | (1,554) | 656 |

(b) Factors affecting tax charge for the year

The rate of tax assessed for the year is lower than the standard rate for current corporation tax in the UK of 28% (2009 28%) The differences are explained below

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 4,000 | 2,060 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax of 28% (2009 28%) | 1,120 | 577 |
| *Effects of* | | |
| Expenses not deductible for tax purposes | 280 | 79 |
| Capital allowances for period in excess of depreciation | (315) | (444) |
| Adjustments in respect of prior periods | (3,029) | – |
| Current tax for the year (note 8(a)) | (1,944) | 212 |

# Notes to the financial statements

**at 30 November 2010**

## 9. Tangible fixed assets

| | *Assets under development* | *Computer equipment and systems* | *Furniture, fixtures and office equipment* | *Leasehold improvements* | *Total* |
|---|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* | *£000* |
| Cost | | | | | |
| At 1 December 2009 | 635 | 15,365 | 3,422 | 786 | 20,208 |
| Additions | - | 2,065 | 55 | 247 | 2,367 |
| Write-off | - | (139) | (1) | - | (140) |
| Transfers | (635) | - | - | - | (635) |
| At 30 November 2010 | - | 17,291 | 3,476 | 1,033 | 21,800 |
| Depreciation | | | | | |
| At 1 December 2009 | – | 14,210 | 2,910 | 395 | 17,516 |
| Charge for year | - | 1,166 | 173 | 136 | 1,475 |
| Write-offs | - | (139) | (1) | - | (140) |
| At 30 November 2010 | - | 15,237 | 3,082 | 531 | 18,850 |
| Net book value | | | | | |
| At 30 November 2010 | - | 2,054 | 394 | 502 | 2,950 |
| At 30 November 2009 | 635 | 1,154 | 512 | 391 | 2,693 |

There were no fixed assets held under finance leases

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

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Amounts owed by Group undertakings | 46,696 | 46,838 |
| Provision against amounts owed by Group undertakings | (46,675) | (46,675) |
| Total amounts owed by Group undertakings (see note 23) | 21 | 163 |
| Trade debtors | 10,366 | 20,000 |
| Deferred tax (see note 22) | 2,027 | 2,417 |
| Other debtors | 1,939 | 1,158 |
| Prepayments | 1,033 | 998 |
| | 15 386 | 24,736 |

The Provision against Group undertakings predominately relate to the amount owing by Lehman Brothers Holding Inc The Directors made a provision in the 2008 results against the entire amount owing by Lehman Brothers Holding Inc The Directors consider it prudent to provide for the full amount due to the filing for Bankruptcy by Lehman Brothers Holding Inc in September 2008

# Notes to the financial statements

**at 30 November 2010**

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

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Taxation and social security | 471 | 357 |
| Subordinated loan | - | 16,000 |
| Amounts owed to Group undertakings | 1,266 | 5,427 |
| Trade Creditors | 752 | 967 |
| Other Creditors | - | 7 |
| Accruals and deferred income | 5,198 | 4,591 |
| Corporation Tax | 4,232 | 6,177 |
| Term Loans | 2,000 | - |
| | 13,919 | 33,526 |

At the year end the Company had the following loan facilities

- £4,250,000 term loan with Southern Pacific Mortgage Limited of which £1,074,598 is due within one year Interest on the facility is LIBOR + 200bps
- £3,659,938 term loan with Lehman Brothers Limited (In Administration), of which £925,402 is due within one year Interest on the facility is LIBOR + 200bps
- £5,000,000 working capital facility with Storm Funding Limited (In Administration) Interest on the facility is LIBOR + 400bps The company did not drawdown on this facility in the year under review

## 12. Creditors: amounts falling after more than one year

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Limited recourse loans | - | 41,828 |
| Term loans | 5,946 | - |
| | 5,946 | 41,828 |

At the year end the Company had the following loan facilities

- £4,250,000 term loan with Southern Pacific Mortgage Limited Interest on the facility is LIBOR + 200bps
- £3,659,938 term loan with Lehman Brothers Limited (In Administration) Interest on the facility is LIBOR + 200bps

# Notes to the financial statements

**at 30 November 2010**

## 13. Called up share capital

| | 2010 | 2009 |
|---|---|---|
| ***Allotted called up and fully paid*** | £ | £ |
| Shares of £1 each – fully paid | | |
| At beginning of period/year | 250,001 | 250,001 |
| Issue of shares | 78 | - |
| At end of year | 250,079 | 250,001 |
| Ordinary shares | 384 | 250,001 |
| Preference A shares ("A") | 1 | - |
| Preference B shares ("B") | 1 | - |
| Deferred shares ("Deferred") | 249,693 | - |
| At end of year | 250,079 | 250,001 |

On 11 June 2010, Storm acquired all 250,001 ordinary shares from Resetfan Limited, ultimately becoming the Company's majority shareholder The Company immediately converted 249,693 to "deferred shares" with 308 shares remaining as ordinary shares

During the year, the Company issued the following shares

- 1 "A" share to SPML for £1 with a nominal value of £1,
- 1 "B" share to Storm for £1 with a nominal value of £1,
- 76 "Ordinary shares" to the executives for £100 per share with a nominal value of £1 The proceeds exceeding the nominal value are reflected in the share premium account below

The ordinary shares, ranking pari passu, have equal voting rights and are entitled to "available profits" once the "A" share has been redeemed and there is no "B" share credit (further defined below)

The "A" share has no voting rights but is entitled to an "A" share preference amount equal to £15 0 million The "A" share preference dividend is subject to interest at 3 month LIBOR plus 6% up to a limit of 7% The "A" share will be redeemed upon the full payment of the "A" share preference amount

The "B" share has no voting right but is entitled to the sum of the aggregate amount received by the company in respect of the Lehman Brothers Holding Inc receivable (£46 7 million, see note 10) The "B" share is not transferable

The "deferred" shares are not entitled to any distributions of available profits, assets on a liquidation or return of capital The holders of the deferred shares have no voting rights and the shares are only transferable to the holder or acquirer of a controlling interest in the Company once the "A" share receipts are equal, in aggregate, to the "A" share preference amount noted above

# Notes to the financial statements

**at 30 November 2010**

## 14. Share Premium

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| At beginning of year | - | - |
| Issue of shares | 8 | - |
| At 30 November 2010 | 8 | - |

## 15. Profit and loss account

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| At 1 December 2009 | (35,755) | (37,158) |
| Profit for the year | 5,554 | 1,403 |
| At 30 November 2010 | (30,201) | (35,755) |

## 16. Reserves

| | 2010 | 2009 |
|---|---|---|
| | £000 | £000 |
| At 1 December 2009 | - | - |
| Debt Waivers transferred to Reserves | 53,391 | - |
| At 30 November 2010 | 53,391 | - |

On 11 June 2010, the Company made a full and final settlement for the limited recourse debts owed to Southern Pacific Funding 3 Limited, Preferred Funding 5 Limited, and the subordinated loan owed to Resetfan Limited As part of the settlement, a cash sum of £500,000 was made to these creditors with the remainder of the loan balance of £21,578,092 waived and recorded in retained earnings

In addition, on the 11 June 2010, the Company entered into a debt waiver agreement with Southern Pacific Mortgages Limited to convert the intergroup loan balance of £35,909,860 owed to it into a term loan of £4,250,000 The remainder of the loan balance of £31,659,860 was waived and recorded in retained earnings

The Lehman Brothers Limited balance of £3,812,691 was restated to a term loan of £3,659,938 repayable over 3 years The balance of £152,753 was waived and recorded in retained earnings

# Notes to the financial statements
**at 30 November 2010**

## 17. Reconciliation of shareholders' funds

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Profit for the year | 5,554 | 1,403 |
| Opening shareholders' funds | (35,505) | (36,908) |
| Inter-company debt waiver | 53,391 | - |
| Proceeds of issuance of shares | 8 | - |
| Closing shareholders' funds | 23,448 | (35,505) |

## 18. Reconciliation of operating Profit to cash generated by operations

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Operating profit from operations | 5,554 | 1,403 |
| Depreciation – fixed assets | 1,475 | 920 |
| Disposal of fixed assets | - | 135 |
| Decrease / (increase) in debtors | 9,350 | (4,234) |
| (Decrease) / increase in creditors | (2,098) | 1,203 |
| Net cash flow from operating activities | 14,281 | (573) |

## 19. Reconciliation of net cash flow to movement in net debt

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Increase/ (decrease) in cash | 14,281 | (573) |
| Capital expenditure and financial investment | (1,732) | (2,338) |
| Issue of shares | 8 | |
| Change in cash resulting from investing activities | 12,557 | (2,911) |
| Cash at start of the year | 12,420 | 15,331 |
| Cash at end of the year | 24,977 | 12,420 |

# Notes to the financial statements

**at 30 November 2010**

## 20. Pension contributıons

The Company operates a stakeholder pensıon plan wıth company contrıbutıng rates of between 7% and 10% of basıc salary Durıng the year the Company contrıbuted pensıon costs of £846,476 (2009 £731,208) ın respect of pensıons and at the balance sheet date had a credıtor of £93,808 (2009 £75,144)

## 21. Obligations under operating leases

The mınımum lease payments to whıch the Company ıs commıtted under non-cancellable operatıng lease for the comıng years are

| | *Land and buıldıngs* | | *Other* | |
|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2009* |
| | *£000* | *£000* | *£000* | *£000* |
| On lease expırıng | | | | |
| Wıthın one year | 949 | 6 | 239 | – |
| Between two and five years | 3,490 | 1,805 | 556 | 920 |
| Over five years | 250 | 4,038 | - | – |
| | 4,689 | 5,849 | 795 | 920 |

The buıldıngs under operatıng leases are for propertıes ın Hıgh Wycombe, London and Dublın (Ireland)

## 22. Deferred taxation

| | *2010* | *2009* |
|---|---|---|
| | *£000* | *£000* |
| Asset at start of year | 2,417 | 2,861 |
| Deferred tax credıt ın the profit and loss account (note 8) | (315) | (444) |
| Rate change ın respect of tımıng dıfferences | (75) | – |
| Asset at the end of year | 2,027 | 2,417 |

Legıslatıon was ıntroduced ın Fınance (no2) Act 2010 to reduce the maın rate of corporatıon tax from 28% to 27% wıth effect from 1 Aprıl 2011 The effect of thıs reductıon ıs reflected ın the deferred tax asset recorded ın the balance sheet The UK government has announced ıts ıntent to legıslate to reduce the rate further by 1% per annum fallıng to 24% wıth effect from 1 Aprıl 2014

The dırectors estımate that the effect of these changes wıll be to reduce the company's deferred tax asset by £225,165

# Notes to the financial statements

**at 30 November 2010**

## 23. Related party transactions

During the year, Acenden Limited has entered into transactions in the ordinary course of business with other related parties Transactions entered into, and trading balances outstanding at the end of the year were

| | *2010 £000 Transactions* | *2010 £000 Interest Received* | *2010 £000 Interest paid* | *2010 £000 Amounts owed by related parties* | *2010 £000 Amounts owed to related parties* |
|---|---|---|---|---|---|
| Lehman Brothers Holding Inc | - | - | - | 46,513 | - |
| *Less provision* | - | - | - | (46,513) | - |
| Lehman Brothers Europe Ltd | - | - | - | 80 | - |
| *Less provision* | - | - | - | (80) | - |
| Lehman Brothers International (Europe) PCO | - | - | - | - | (126) |
| Lehman Brothers Holdings Inc PCO | - | - | - | - | (6) |
| Lehman Brothers Inc PCO | - | - | - | - | (4) |
| Lehman Brothers Ltd (In Administration) | - | - | (48) | - | - |
| Lehman Brothers OTC Derivatives Inc | - | - | - | 1 | - |
| *Less provision* | - | - | - | (1) | - |
| Lehman Brothers Special Financing Inc | - | - | - | 33 | - |
| *Less provisions* | - | - | - | (33) | - |
| Southern Pacific Funding 5 Ltd | - | - | - | - | - |
| Resetfan Ltd | - | - | - | - | - |
| Preferred Holdings Ltd | - | - | - | 9 | - |
| *Less provision* | - | - | - | (9) | - |
| Preferred Group Ltd | - | - | - | 8 | - |
| *Less provision* | - | - | - | (8) | - |
| Preferred Mortgages Ltd | 546 | - | - | - | (162) |
| Preferred Funding 5 Ltd | - | - | - | - | (286) |
| Preferred Mortgages Residuals 1 Ltd | - | - | - | - | - |
| Southern Pacific Personal Loans Ltd | - | - | - | 31 | - |
| *Less provision* | - | - | - | (31) | - |
| Southern Pacific Mortgage Ltd | 841 | - | (55) | - | - |
| Southern Pacific Funding 1 Ltd | - | - | - | - | (423) |
| Southern Pacific Funding 2 Ltd | - | - | - | - | - |
| Southern Pacific Funding 3 Ltd | - | - | - | - | - |
| Southern Pacific Residuals 2 Ltd | - | - | - | - | (259) |
| Hefesto Stc, SA | 153 | - | - | 21 | -- |
| Storm Funding Ltd | - | - | (47) | - | - |
| ***Total related party transactions*** | 1,540 | - | (150) | 21 | (1,266) |

# Notes to the financial statements
**at 30 November 2010**

## 23. Related party transactions (contınued)

| | 2009 £000 *Transactıons* | 2009 £000 *Interest Receıved* | 2009 £000 *Interest paıd* | 2009 £000 *Amounts owed by related partıes* | 2009 £000 *Amounts owed to related partıes* |
|---|---|---|---|---|---|
| Lehman Brothers Holdıng Inc | – | – | – | 46,513 | – |
| *Less provısıon* | – | – | – | (46,513) | – |
| Lehman Brothers Europe Ltd | – | – | – | 80 | – |
| *Less provısıon* | – | – | – | (80) | – |
| Lehman Brothers Internatıonal (Europe) PCO | – | – | – | – | (126) |
| Lehman Brothers Holdıngs Inc PCO | – | – | – | – | (6) |
| Lehman Brothers Inc PCO | – | – | – | – | (4) |
| Lehman Brothers Ltd PCO | – | – | – | – | (3,813) |
| Lehman Brothers OTC Derıvatıves Inc | – | – | – | 1 | – |
| *Less provısıon* | – | – | – | (1) | – |
| Lehman Brothers Specıal Fınancıng Inc | – | – | – | 33 | – |
| *Less provısıons* | – | – | – | (33) | – |
| Southern Pacıfic Fundıng 5 Ltd | – | – | – | 94 | – |
| Resetfan Ltd | – | – | (260) | – | (16,000) |
| Preferred Holdıngs Ltd | – | – | – | 9 | – |
| *Less provısıon* | – | – | – | (9) | – |
| Preferred Group Ltd | – | – | – | 8 | – |
| *Less provısıon* | – | – | – | (8) | – |
| Preferred Mortgages Ltd | 356 | – | – | 5 | (213) |
| Preferred Fundıng 5 Ltd | – | – | (50) | – | (2,548) |
| Preferred Mortgages Resıduals 1 Ltd | – | – | – | – | (280) |
| Southern Pacıfic Personal Loans Ltd | – | – | – | 31 | – |
| *Less provısıon* | – | – | – | (31) | – |
| Southern Pacıfic Mortgage Ltd | 555 | – | (795) | 64 | (35,910) |
| Southern Pacıfic Fundıng 1 Ltd | – | – | – | – | (423) |
| Southern Pacıfic Fundıng 2 Ltd | – | – | – | – | (3) |
| Southern Pacıfic Fundıng 3 Ltd | – | – | (81) | – | (3,670) |
| Southern Pacıfic Resıduals 2 Ltd | – | – | – | – | (259) |
| ***Total related party transactıons*** | 911 | – | (1,186) | 163 | (63,255) |

Durıng the year, amounts totallıng £1,540,356 (2009 £910,602) beıng recharges at normal market prıces have been made by Acenden Lımıted to Hefesto STC, SA £153,211(2009 £Nıl), Preferred Mortgages Lımıted £545,698 (2009 £355,906) and Southern Pacıfic Mortgage Lımıted £841,446 (2009 £554,696)

Lehman Brothers Holdıngs Inc (In Admınıstratıon) ıs the parent company ındırectly ownıng 100% of the share capıtal of these companıes

# Notes to the financial statements

**at 30 November 2010**

## 24. Ultimate parent undertaking and controlling party

The immediate parent company of Acenden Limited is Storm Funding Limited

The ultimate parent company of Acenden Limited is Lehman Brothers Holding Inc (In Administration) The Company was incorporated in the State of Delaware in the United States of America and put into chapter 11 Bankruptcy in September 2008

## 25. Events since the balance sheet date

On 18 November 2010, the board approved the recommendation to re-organise and streamline certain division's responsibilities and resources On 1 February 2011, the company announced the re-organisation and realignment of these divisions The company provided the sum of £252,180 to cover the expected redundancy payments to the individuals affected