

ARTHUR
ANDERSEN

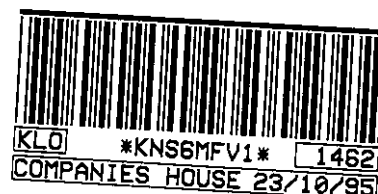
ARTHUR ANDERSEN & CO. SC

THE MORTGAGE CORPORATION LIMITED

FINANCIAL STATEMENTS - 31 DECEMBER 1994

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

The company's registered number is: 1759546



THE MORTGAGE CORPORATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1994

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 December 1994.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the company throughout the year were the provision of mortgage loans secured on residential properties within England, Wales and Scotland and servicing mortgages for fellow subsidiary undertakings.

The company incurred a loss on ordinary activities after taxation of £2,684,204 for the year ended 31 December 1994 (1993 loss: £10,066,275).

The directors cannot recommend the payment of a dividend (1993 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are as shown below:

P. J. McSloy	Chairman
N. Kheraj	
P. D. Mullen	(appointed 30 June 1994)
R. A. Nau	(resigned 24 April 1995)
L. J. Rothe	(resigned 30 June 1994)

The company is a wholly-owned subsidiary of The Mortgage Corporation Group Limited, of which N. Kheraj, P. J. McSloy and P. D. Mullen are all directors. Details of their interests in the share capital of The Mortgage Corporation Group Limited are dealt with in the directors' report of that company.

None of the directors had at any time during the year any interests in the shares or contracts of the company which is required to be disclosed under the terms of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 those 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 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (Continued)

FIXED ASSETS

Information relating to changes in tangible fixed assets is given in note 7 to the financial statements.

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has kept them informed by formal and informal meetings on matters affecting them as employees and on the various factors affecting the company.

EMPLOYMENT OF DISABLED PEOPLE

In line with its general policy of equal opportunity in employment practice the company supports the employment of disabled persons wherever possible, by recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion.

LIABILITY INSURANCE FOR COMPANY OFFICERS

As permitted by the Companies Act 1985, the company maintains insurance cover for the directors against liabilities in relation to the company.

BY ORDER OF THE BOARD,

A handwritten signature in black ink, appearing to read 'I. A. Pellow', written in a cursive style.

Victoria Plaza
111 Buckingham Palace Road
London
SW1W 0SR

**I. A. Pellow
Secretary**

14 June 1995

London

Auditors' report to the shareholders of THE MORTGAGE CORPORATION LIMITED:

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the company's state of affairs as at 31 December 1994 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

14 June 1995

THE MORTGAGE CORPORATION LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

		<u>1994</u>	<u>1993</u>
	<u>Notes</u>		
TURNOVER	1b & 2	£ 41,220,284	£ 56,763,140
Interest expense	3	(11,065,186)	(20,529,167)
Other operating expenses		<u>(30,440,963)</u>	<u>(42,691,255)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(285,865)	(6,457,282)
Tax on loss on ordinary activities	6	<u>(2,398,339)</u>	<u>(3,608,993)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	<u>£ (2,684,204)</u>	<u>£ (10,066,275)</u>

The accompanying notes are an integral part of this profit and loss account.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no other recognised gains or losses in the current year (1993 - £ nil).

THE MORTGAGE CORPORATION LIMITED

BALANCE SHEET - 31 DECEMBER 1994

		<u>1994</u>	<u>1993</u>
	<u>Notes</u>		
FIXED ASSETS			
Tangible assets	7	£ 2,607,866	£ 3,535,719
Investments	1i	<u>13,668,610</u>	<u>13,745,200</u>
		<u>16,276,476</u>	<u>17,280,919</u>
MORTGAGE ADVANCES	8	<u>63,387,580</u>	<u>37,851,936</u>
ASSETS SECURITISED	9	<u>1,550,226,381</u>	<u>1,947,076,189</u>
CURRENT ASSETS			
Debtors	10	114,754,534	135,928,935
Cash at bank and in hand	11	<u>18,976,041</u>	<u>23,647,559</u>
		<u>133,730,575</u>	<u>159,576,494</u>
TOTAL ASSETS		<u>£1,763,621,012</u>	<u>£2,161,785,538</u>
CAPITAL AND RESERVES			
Called-up share capital	12	£ 67,500,100	£ 67,500,100
Share premium account	13	11,360,000	11,360,000
Profit and loss account		<u>(73,513,274)</u>	<u>(70,829,070)</u>
SHAREHOLDERS' FUNDS	14	5,346,826	8,031,030
PROVISION FOR LIABILITIES AND CHARGES	15	6,089,579	12,980,762
CREDITORS	16	<u>1,752,184,607</u>	<u>2,140,773,746</u>
		<u>£1,763,621,012</u>	<u>£2,161,785,538</u>

SIGNED ON BEHALF OF THE BOARD



P.D. Mullen
Director

14 June 1995

The accompanying notes are an integral part of this balance sheet.

THE MORTGAGE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1994

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies, all of which have been applied consistently throughout the current year and the preceding year, are set out below.

(a) Basis of Accounting

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

Under the provisions of Financial Reporting Standard No. 1, the company has not prepared a cash flow statement because its parent undertaking, The Mortgage Corporation Group Limited, which is incorporated in England and Wales, has prepared consolidated accounts which include the accounts of the company for the year and which contain a cash flow statement.

(b) Turnover

Turnover comprises interest, servicing fees, commissions and miscellaneous fee income recognised as it becomes receivable. Interest includes that which is recoverable from the Inland Revenue under MIRAS (mortgage interest relief at source).

(c) Interest Rate Hedges

Gains and losses arising from interest rate swaps and forward rate agreements ("FRA's") are taken to the profit and loss account in equal instalments over the period to which they relate. At year end, a provision is made for gains or losses on transactions where the notional values of the interest rate swaps or FRA's exceed the assets or liabilities being hedged.

(d) Depreciation

Depreciation is provided at rates calculated to write-off the cost of fixed assets on a straight-line basis over their expected useful life, as follows:

Leasehold improvements	Over the life of the lease
Fixtures, fittings and equipment	4 - 5 years
Computer equipment	3 - 5 years
Motor cars	3 years

(e) Pension Costs

The company accounts for pension costs in accordance with Statement of Standard Accounting Practice 24. For the defined contribution scheme, the charge recorded in the profit and loss Account is the amount of contribution payable in respect of the year.

Further information on pension costs is provided in note 17c.

(f) Leases

Rentals under operating leases are primarily charged on a straight-line basis to the profit and loss account over the term of the lease. Where the Company has vacated or intends to vacate space a provision is established for the estimated net future liability of the space vacated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. **PRINCIPAL ACCOUNTING POLICIES (Continued)**

(g) Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred taxation is calculated on the liability method at the rate of tax at which the liability is likely to be paid. Deferred taxation is provided to take account of the difference in timing between certain items for financial statement purposes and taxation purposes. Deferred taxation is not provided on timing differences which, in the opinion of management, will not reverse.

The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient companies.

(h) Mortgage Advances

Mortgage advances comprise loans which are secured by way of a mortgage over freehold and leasehold residential properties located in England, Wales and Scotland.

Mortgage advances include properties in possession and are stated after deducting a provision for loan losses. The provision is maintained at a level that is considered adequate by management to absorb losses inherent in the loan portfolio of the company. A judgement as to the adequacy of the provision is made at year end and includes anticipated recoveries under mortgage indemnity guarantee and other insurance policies. Should the provision be judged inadequate either because of reductions due to write-offs or because of changes to the size and characteristics of the portfolio, the provision is increased and charged to other operating expenses in the current year.

(i) Investments

Investments represent the market value of properties which have been sold to unrelated companies organised under a business expansion scheme ("BES"). As more fully described in note 16c, the company has granted an option which may require the company to repurchase these properties at a future date. Therefore, the company has not accounted for these transactions as a sale, and a corresponding liability is reported in creditors.

The liability is adjusted at each year end based on management's estimate of the future liability that may arise and is charged to the profit and loss account.

(j) Securitisation of Mortgage Advances

During the period 1987 through 1992, the company entered into a series of transactions under which it sold pools of residential mortgages to fellow subsidiaries (referred to as Special Purpose Vehicles - "SPV's") of its immediate parent, The Mortgage Corporation Group Limited. Each SPV issued debt, the proceeds of which were used to finance the purchase of mortgages from the company.

The company does not hold any of the issued share capital of the SPV's but has entered into servicing agreements with the SPV's to administer their mortgage portfolios. For certain of these SPV's the company is required to provide liquidity support facilities and limited indemnities against shortfalls arising on the sale of repossessed properties.

Servicing fees are earned by the company from each SPV calculated on excess earnings as defined in the relevant servicing agreements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Assets and Liabilities Recognised by the company

In order to comply with the requirements of Financial Reporting Standard No. 5 ("FRS No. 5"), the company has separately presented on its Balance Sheet assets securitised under the arrangements summarised in note 1 j). The corresponding financing obligations for these assets are classified as credit facilities and floating rate notes within creditors.

This treatment is deemed appropriate because the directors have concluded, on the basis of reasonable assumptions, that the company retains significant interest and control in the performance of assets sold to the SPV's for the purpose of securitisation.

The comparative financial statements for 1993 have been amended to reflect compliance with FRS No. 5. The amendment has no effect on the profit and loss account of the company for 1993.

2. TURNOVER

Turnover comprises:

	<u>1994</u>	<u>1993</u>
Servicing fees	£ 29,573,291	£ 43,790,657
Interest income	8,474,508	10,271,926
Commission income and miscellaneous fees	<u>3,172,485</u>	<u>2,700,557</u>
	<u>£ 41,220,284</u>	<u>£ 56,763,140</u>

All income and the loss on ordinary activities is derived from the company's principal activities relating to mortgage advances offered in England, Wales and Scotland.

3. INTEREST EXPENSE

Interest expense comprises:

	<u>1994</u>	<u>1993</u>
Interest on intercompany borrowings	£ 7,392,378	£ 10,430,198
Interest on bank loans and overdrafts	2,686,840	8,861,494
Interest on subordinated loan	<u>985,968</u>	<u>1,237,475</u>
	<u>£ 11,065,186</u>	<u>£ 20,529,167</u>

With the exception of interest on subordinated loan, interest expense relates to short-term borrowings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	<u>1994</u>	<u>1993</u>
Provision for loan losses	£ 17,645,353	£ 29,440,874
Staff costs (note 5)	5,391,394	6,540,593
Depreciation	797,104	1,007,324
Equipment rental	412,470	495,699
Auditors' remuneration	45,000	45,000

5. STAFF COSTS

Particulars of employees including executive directors are shown below:

Employee costs during the year amounted to:

	<u>1994</u>	<u>1993</u>
Wages and salaries	£ 4,702,419	£ 5,754,950
Social security costs	381,880	451,721
Other pension costs (note 17c)	<u>307,095</u>	<u>333,922</u>
	<u>£ 5,391,394</u>	<u>£ 6,540,593</u>

The average weekly number of persons employed by the company during 1994 was 201 (1993 - 240).

Directors' remuneration in respect of directors of the company was as follows:

	<u>1994</u>	<u>1993</u>
Other emoluments (including pension contributions)	<u>£ 221,872</u>	<u>£ 242,948</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	<u>1994</u>	<u>1993</u>
Chairman	<u>£ -</u>	<u>£ -</u>
Highest paid director	<u>£ 159,598</u>	<u>£ 242,948</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. STAFF COSTS (Continued)

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	<u>1994</u>	<u>1993</u>
£ 0 - £ 5,000	3	6
£ 60,001 - £ 65,000	1	-
£155,001 - £160,000	1	-
£240,001 - £245,000	<u>=</u>	<u>1</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

The tax charge is based on the loss for the year and comprises:

	<u>1994</u>	<u>1993</u>
Corporation tax at 33%	£ (2,737,456)	£ (1,061,743)
Adjustment of current taxation in respect of prior years	<u>339,117</u>	<u>(2,547,250)</u>
	<u>£ (2,398,339)</u>	<u>£ (3,608,993)</u>

7. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

	<u>Computer Equipment</u>	<u>Motor Cars</u>	<u>Leasehold Improvements</u>	<u>Fixtures, Fittings & Equipment</u>	<u>Total</u>
COST-					
Beginning of year	£2,634,559	£ 369,647	£3,419,304	£2,117,235	£8,540,745
Additions	647,004	132,911	229,536	4,892	1,014,343
Disposals	<u>(5,750)</u>	<u>(226,038)</u>	<u>(1,439,815)</u>	<u>(7,433)</u>	<u>(1,679,036)</u>
End of year	<u>3,275,813</u>	<u>276,520</u>	<u>2,209,025</u>	<u>2,114,694</u>	<u>7,876,052</u>
DEPRECIATION-					
Beginning of year	£2,206,881	£ 160,018	£ 760,925	£1,877,202	£5,005,026
Charge	430,376	63,115	142,908	160,705	797,104
Disposals	<u>-</u>	<u>(139,582)</u>	<u>(386,961)</u>	<u>(7,401)</u>	<u>(533,944)</u>
End of year	<u>2,637,257</u>	<u>83,551</u>	<u>516,872</u>	<u>2,030,506</u>	<u>5,268,186</u>
NET BOOK VALUE					
Beginning of year	<u>£ 427,678</u>	<u>£ 209,629</u>	<u>£2,658,379</u>	<u>£ 240,033</u>	<u>£3,535,719</u>
End of year	<u>£ 638,556</u>	<u>£ 192,969</u>	<u>£1,692,153</u>	<u>£ 84,188</u>	<u>£2,607,866</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. MORTGAGE ADVANCES

Mortgage advances comprise:

	<u>1994</u>	<u>1993</u>
Completed advances	£ 64,897,735	£ 39,149,017
Provision for loan losses	<u>(1,510,155)</u>	<u>(1,297,081)</u>
	<u>£ 63,387,580</u>	<u>£ 37,851,936</u>

Mortgage advances are all due to be repaid after more than one year.

The movement in mortgage advances in the year was as follows:

	<u>1994</u>	<u>1993</u>
Beginning of year	£ 37,851,936	£ 36,604,589
Net purchases from group and fellow subsidiary undertakings (Note 17(a))	41,875,819	17,056,713
Advances made	48,000	803,986
Loans redeemed	(16,175,101)	(17,390,818)
Net change in provision for loan losses	<u>(213,074)</u>	<u>777,466</u>
End of year	<u>£ 63,387,580</u>	<u>£ 37,851,936</u>

9. ASSETS SECURITISED

	<u>1994</u>	<u>1993</u>
Mortgage advances	£1,518,702,041	£1,896,196,452
Investments	<u>31,524,340</u>	<u>50,879,737</u>
	<u>£1,550,226,381</u>	<u>£1,947,076,189</u>

Investments represent redemption proceeds on mortgage advances. The total of mortgage advances and investments secure the credit facilities and floating rate notes reported in creditors (see note 16).

Other net assets of the SPV's, including capitalised issue costs of £6,189,399 (1993 - £7,978,742), from which the company will not obtain economic benefit, have been excluded from the financial statements of the company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. DEBTORS

The following are included in the net book value of debtors:

	<u>1994</u>	<u>1993</u>
Amounts falling due within one year:		
Due from other fellow subsidiary undertakings	£ 50,157,677	£ 76,115,980
Prepayments and accrued income	3,845,965	5,171,573
Other debtors (see (a) below)	3,529,813	4,890,375
Group relief receivable	<u>-</u>	<u>4,904,649</u>
	57,533,455	91,082,577

Amounts due after more than one year:

Due from fellow subsidiary undertakings (see (b) below)	<u>57,221,079</u>	<u>44,846,358</u>
Total debtors	<u>£ 114,754,534</u>	<u>£ 135,928,935</u>

(a) Other debtors is primarily mortgage interest receivable and is stated net of provisions for uncollectable amounts.

(b) Amounts from fellow subsidiary undertakings due after one year are in respect of subordinated loans which are currently non-interest bearing and for which there are in certain instances indemnities provided by the parent company. The loans may be repaid in whole or in part provided the subsidiaries have sufficient assets to meet their other obligations and liabilities. The balance shown is after a provision of £6,291,887 (1993 - £5,651,152) for uncollectable amounts where the parent company has not provided an indemnity.

11. CASH AT BANK AND IN HAND

Cash at bank and in hand at 31 December 1994 includes segregated funds of £18,701,652 (1993 - £22,922,219) which have been established to meet potential claims by fellow subsidiary companies for losses on repossessed properties (see note 15).

12. CALLED-UP SHARE CAPITAL

	<u>1994</u>	<u>1993</u>
Authorised:		
170,000,000 ordinary £1 shares	£ 170,000,000	£ 170,000,000
30,000,000 non-redeemable preference shares of £1 each	<u>30,000,000</u>	<u>30,000,000</u>
	<u>£ 200,000,000</u>	<u>£ 200,000,000</u>
Allotted, called-up and fully paid		
67,500,100 ordinary £1 shares	<u>£ 67,500,100</u>	<u>£ 67,500,100</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. SHARE PREMIUM ACCOUNT

	<u>1994</u>	<u>1993</u>
Beginning and end of year	£ 11,360,000	£ 11,360,000

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1994</u>	<u>1993</u>
Loss for the year	£ (2,684,204)	£ (10,066,275)
New share capital issued	_____ -	_____ 15,000,000
Net (deduction) / addition to shareholders' funds	(2,684,204)	4,933,725
Opening shareholders' funds	_____ 8,031,030	_____ 3,097,305
Closing shareholders' funds	£ _____ 5,346,826	£ _____ 8,031,030

Shareholders' funds comprise equity interests.

15. PROVISION FOR LIABILITIES AND CHARGES

The provision for liabilities and charges comprises:

	<u>1994</u>	<u>1993</u>
Claims against segregated funds	£ 4,166,778	10,089,173
Lease costs	_____ 1,922,801	_____ 2,891,589
	£ _____ 6,089,579	£ _____ 12,980,762

Claims against segregated funds relates to shortfalls on the sale of repossessed properties by fellow subsidiary undertakings for which the company has agreed to provide an indemnity against loss.

Lease costs represent a provision for the estimated future payments on premises leased by the company which are vacant. The estimated future payments are net of anticipated income from sub leasing the vacant space. Subsequent to year end the company had reached agreement to sub lease in its entirety all vacant space.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CREDITORS

The following are included in creditors:

	<u>1994</u>	<u>1993</u>
Amounts falling due within one year:		
Due to group and fellow subsidiary undertakings (see (a) below)	£ 157,923,932	£ 148,457,845
Credit facilities (see (b) below)	83,000,000	107,500,000
Other creditors and accruals	8,718,942	14,386,249
Group relief	2,737,456	-
Overdrafts	759,646	411,770
PAYE and NIC	252,262	239,582
Trade creditors	<u>8,671</u>	<u>3,063</u>
	253,400,909	270,998,509

Amounts falling due after more than one year:

Floating rate notes (see (b) below)	£1,445,726,381	£1,810,576,189
Credit facilities (see (b) below)	21,500,000	29,000,000
Other (see (c) below)	16,557,317	15,199,048
Due to parent company (see (d) below)	<u>15,000,000</u>	<u>15,000,000</u>
	<u>£1,752,184,607</u>	<u>£2,140,773,746</u>

- (a) The balance due to group and fellow subsidiary undertakings includes outstanding loans maturing within 12 months but capable of being rolled over at maturity. Interest is payable at market rates.

The company has granted a floating charge on its mortgage advances to secure certain amounts due to the group and fellow subsidiary undertakings.

- (b) Credit facilities and floating rate notes represent the financing obligations of fellow subsidiaries whose securitised assets have been separately presented on the balance sheet of the company.

- (c) Other represents amounts provided through a business expansion scheme ("BES"). Under the terms of the transaction, the company has sold repossessed properties to three BES companies, who in turn market them as rental properties. In connection with the sale, the company has granted an option to each of the BES companies. The option, if exercised, would require the company to repurchase the properties at such a price that will enable the BES companies to make a distribution of £1.37 for each £1 invested by their shareholders. Therefore, the company has not accounted for the transaction as a sale. The option may be exercised at any time between 1 June 1997 and 10 July 1997.

Due to the number of economic factors affecting the future operating performance of the BES companies, it is uncertain as to whether or not the option will be exercised.

- (d) The amount due to parent company falling due after one year is a subordinated loan. The loan matures in January 1997 and bears interest at a margin of 137 basis points over one year London Interbank Offer Rate ("LIBOR") as determined on the last business day in December.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Contingent Liabilities

Under the terms of a mortgage sale agreement that the Company has with a fellow subsidiary it is required to repurchase mortgage advances with certain arrears characteristics. During 1994 the Company repurchased £5,612,544, of mortgage advances, (1993 - £15,138,221).

The company has entered into interest rate swap contracts, under which it pays a weighted average fixed interest rate of 11% on notional borrowings of £22.5 million with a weighted average term to maturity of 13 months.

(b) Lease Commitments

The company has entered into non-cancellable operating leases in respect of equipment, the payments for which extend over a period not exceeding 3 years. The total annual rental for 1994 was £412,470 (1993 - £495,699).

In addition, the company leases certain land and buildings on short and long term leases. The annual rental on these leases for 1994 was £1,501,128 (1993 - £1,530,478). The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. The leases also require the company to pay insurance, maintenance and repairs of the properties.

The minimum annual rentals under the foregoing leases are as follows:

	<u>1994</u>		<u>1993</u>	
	<u>Property</u>	<u>Equipment</u>	<u>Property</u>	<u>Equipment</u>
Operating Leases which expire:-				
within 1 year	£ -	£ 45,454	£ 2,917	£ 204,044
within 2 - 5 years	-	-	-	126,880
after 5 years	<u>1,501,128</u>	<u>-</u>	<u>1,501,128</u>	<u>-</u>
	<u>£1,501,128</u>	<u>£ 45,454</u>	<u>£1,504,045</u>	<u>£ 330,924</u>

The minimum annual rental of £1,501,128 will be reduced by £617,000 through the sub letting of vacated space commencing in 1996.

(c) Pension Arrangements

Eligible employees of the company participate in The Mortgage Corporation Pension Plan ("the Plan"). The Plan is a funded pension scheme providing defined contribution benefits and insured death benefits.

The assets of the Plan are held separately from those of the company and are administered by a trustee.

Total costs relating to the Plan for 1994 were £307,095 (1993 - £333,922).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. ULTIMATE PARENT COMPANY

The company is a wholly-owned subsidiary of The Mortgage Corporation Group Limited, incorporated in England and Wales, and its ultimate parent company is Salomon Inc, incorporated in the State of Delaware, U.S.A.

The largest group in which the results of the company are consolidated is that headed by Salomon Inc. The smallest group in which they are consolidated is that headed by The Mortgage Corporation Group Limited.

The consolidated financial statements of Salomon Inc are available to the public from its office at 7 World Trade Center, New York, New York 10048, and those of The Mortgage Corporation Group Limited may be obtained from the Company's Registered Office at 111 Buckingham Palace Road, London SW1W 0SR.