

2190427

LEGAL & GENERAL MORTGAGE SERVICES LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1993



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KLO RECEIPT DATE: 11/07/94

LEGAL & GENERAL MORTGAGE SERVICES LIMITED

DIRECTORS

C.C. Harris (Chairman)
F.K. Desmond
M.C. Griffiths
M.P. Kelly
L.K. Penney
G.C. Thomas
J.D. Whorwood

SECRETARY

T.A.F. Smith A.C.I.S.

REGISTERED OFFICE
Temple Court
11 Queen Victoria Street
London
EC4N 4TP

REGISTERED IN ENGLAND No.2190427

REPORT OF THE DIRECTORS

The Directors submit their sixth annual report together with the financial statements of Legal & General Mortgage Services Limited (the Company) for the year ended 31 December 1993.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company continues to be that of trading in mortgage loans secured on residential properties within England and Wales.

The business achieved a profit in 1993, despite the continued low activity in the U.K. housing market.

RESULTS FOR THE YEAR AND DIVIDEND

The profit for the year after taxation amounted to £380,146 (1992 £141,216) which has been transferred to reserves. The Directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The names of the present Directors are shown on page 1. All the Directors remained in office throughout the year.

No Director had any interest in the shares of the Company during the year or at 31 December 1993.

According to the Register of Directors' Share Interests kept by the Company, the following persons who were Directors of the Company on 31 December 1993 had, at the respective dates shown, interests within the meaning of the Companies Act 1985 in ordinary shares of 25p each in the Company's holding company Legal & General Group Plc as shown opposite their names in the following table:

	As at 1 January 1993	As at 31 December 1993
F.K. Desmond	Nil	Nil
M.C. Griffiths	Nil	Nil
M.P. Kelly	Nil	Nil
L.K. Penney	2,417	3,515
G.C. Thomas	Nil	Nil
J.D. Whorwood	850	1,324

C.C. Harris is also a director of the parent company, Legal & General Assurance Society Limited, and his interests in the shares of the ultimate holding company, Legal & General Group Plc, are shown in the Directors' report of the parent company.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' SHARE OPTIONS

In addition to the interest listed above, the Directors held options under Legal & General Group Plc's share option schemes to subscribe for ordinary shares of 25p each. Details of options granted and exercised, together with totals of options held, are as follows:

TOTAL		OPTIONS GRANTED						OPTIONS EXERCISED			
NAME OF DIRECTORS	TOTAL OPTIONS AT 1.1.1993	SCHEME	DATE OF GRANT	NO OF OPTIONS	PRICE	EXERCISE PERIOD	SCHEME	DATE OF EXERCISE	NO OF OPTIONS	PRICE	TOTAL OPTIONS AT 31.12.1993
M.P. KELLY	3305	ESOS (1985)	14.4.93	5000	474p	14.4.96 13.4.2003	ESOS (1985)	6.07.93	5000	370p	3305
L.R. PENNEY	48316	ESOS (1985)	14.4.93	5000	474p	14.4.96 13.4.2003	ESOS (1985) SAYE (1981)	18.03.93 18.03.93 3.06.93	7500 5000 960	322p 339p 228.66p	39856
S.C. THOMAS	20013	ESOS (1985)	14.4.93	5000	474p	14.4.96 13.4.2003					20013
C.D. WHORWOOD	57775						ESOS (1985) ESOS (1985)	7.04.93 6.10.93	9000 13000	339p 370p	35775

SHARE SCHEMES

ESOS (1985) Executive Share Option Scheme 1985
SAYE (1981) Savings-related Share Option Scheme 1981

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

REPORT OF THE DIRECTORS (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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.

ELECTIVE RESOLUTION

An elective resolution has been passed by the Company's shareholders whereby the Company is not required to hold an Annual General Meeting and does not need to appoint auditors each year. Accordingly, the Company's auditors remain in office until the Company or the auditors otherwise determine.

BY ORDER OF THE BOARD



T.A.F. SMITH
SECRETARY

23 MARCH 1994

AUDITORS' REPORT TO THE SHAREHOLDERS OF LEGAL & GENERAL MORTGAGE SERVICES LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 3 and 4 the Company's directors are responsible for the preparation of 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 judgments 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 state of the Company's affairs as at 31 December 1993 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

25 March 1994

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

LEGAL & GENERAL MORTGAGE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1993

	<u>Notes</u>	<u>1993</u> <u>£</u>	<u>1992</u> <u>£</u>
Turnover	1	35,849,458	35,273,958
Cost of funds		(31,667,364)	(30,645,722)
Gross Margin		<u>4,182,094</u>	<u>4,628,236</u>
Other Income		1,555,324	1,423,756
		<u>5,737,418</u>	<u>6,051,992</u>
Operating expenses and provisions		<u>(5,267,508)</u>	<u>(5,767,422)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	469,910	284,570
Taxation	6	(89,764)	(143,354)
		<u>380,146</u>	<u>141,216</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		380,146	141,216
DEFICIT BROUGHT FORWARD		(1,731,569)	(1,872,785)
DEFICIT CARRIED FORWARD		<u>(1,351,423)</u>	<u>(1,731,569)</u>
		=====	=====

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

All gains and losses which arose during the year have been reflected in the profit and loss account.

The notes on pages 8 to 16 are an integral part of these accounts.

LEGAL & GENERAL MORTGAGE SERVICES LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 1993

	<u>Notes</u>	1993 £	1993 £	1992 £	1992 £
FIXED ASSETS					
Mortgage Advances	7		274,630,512		315,180,297
Securitised mortgages & related assets	16	228,458,836		259,928,935	
Non-recourse funding		<u>(228,458,836)</u>	-	<u>(259,928,935)</u>	-
Investment in subsidiary	8		100		100
Intangible Assets	9		1,616,927		1,789,984
Tangible Assets	10		120,549		-
			<u>276,368,088</u>		<u>316,970,381</u>
CURRENT ASSETS					
Debtors:	11	10,019,234		9,675,706	
Investments: Mortgage Backed Securities		34,234,800		-	
Cash at bank		366,873		318,217	
		<u>44,620,907</u>		<u>9,993,923</u>	
Creditors: amounts falling due within one year	12	<u>(316,340,418)</u>		<u>(322,695,773)</u>	
NET CURRENT LIABILITIES			<u>(271,719,511)</u>		<u>(312,701,950)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>4,648,577</u>		<u>4,268,431</u>
CAPITAL AND RESERVES					
Called up share capital	13		6,000,000		6,000,000
Retained deficit			(1,351,423)		(1,731,569)
SHAREHOLDER'S FUNDS	14		<u>4,648,577</u>		<u>4,268,431</u>

The notes on pages 8 to 16 are an integral part of these accounts.

APPROVED BY THE BOARD

DIRECTOR

Alan Kelly

Date: 23 MARCH 1994

LEGAL & GENERAL MORTGAGE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

a) Basis of accounting

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

b) Turnover

Turnover comprises interest income from mortgage advances made in England and Wales, including deferred interest, interest recoverable from the Inland Revenue under the MIRAS scheme (mortgage interest relief at source) and interest receivable from investments in Mortgage Backed Securities.

Turnover also includes deferred consideration and a broking fee receivable pursuant to an agreement transferring pools of mortgages to Temple Court Originations Limited.

c) Cost of Funds

Cost of Funds comprise interest payable on borrowings to finance mortgage advances. The cost of protection against interest rate exposure is included in the Cost of Funds and is recognised over the period of the treasury instrument.

d) Mortgage advances

Mortgage Advances comprise endowment, pension linked and interest only loans secured by mortgages over residential properties located in England and Wales. Advances are shown at cost, plus deferred interest, less amounts set aside for bad debts.

e) Intangible Assets

- Pool Insurance Premiums

Premiums relating to two pool insurance policies have been capitalised. The capitalised premiums are amortised using the straight line method over the average expected life of the underlying mortgage pools.

NOTES TO THE ACCOUNTS (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

- Computer System Development Costs

Development expenses and licence fees relating to a new computer system have been capitalised. The capitalised premiums are to be amortised using the straight line method over three years.

- Treasury Instrument Premiums

Treasury instruments (eg Interest rate options) premiums are capitalised and amortised over the period of the instruments.

f) Tangible Assets

Expenditure on computers and large items of equipment is written off over periods ranging up to four years. All other items of capital expenditure are written off as incurred.

g) Deferred Taxation

Deferred taxation is calculated on the liability method and is provided only to the extent that it is considered with reasonable probability that the liability will become payable within the foreseeable future.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on Ordinary Activities before Tax is stated after charging:

	<u>1993</u> £	<u>1992</u> £
Auditor's Remuneration	28,495	26,825
Amortisation of Intangible Fixed Assets	556,851	627,176
Depreciation of Tangible Fixed Assets	30,467	-
	=====	=====

3. DIRECTORS' EMOLUMENTS AND LOANS

The Directors' emoluments, including pension contributions, amounted to £154,124 (1992 - £149,691). The Chairman received no emoluments.

The highest paid Director received emoluments, excluding pension contributions of £58,501 (1992 - £56,285).

NOTES TO THE ACCOUNTS (CONTINUED)

DIRECTORS EMOLUMENTS AND LOANS (CONTINUED)

The emoluments of the Directors excluding pension contributions were as follows:

£	<u>1993</u>	<u>1992</u>
0	3	3
5,001 - 10,000	2	2
50,001 - 55,000	1	1
55,001 - 60,000	1	1

No loans were granted to Directors and officers other than those loans to Directors' which are disclosed in the accounts of the parent company Legal and General Assurance Society Limited.

4. STAFF COSTS

	<u>1993</u> £	<u>1992</u> £
Wages and Salaries (including directors)	1,398,724	1,003,633
Social Security costs	122,797	104,378
Other pension costs - Staff	102,486	65,390
Other pension costs - Directors	21,121	21,121
	<u>1,645,128</u>	<u>1,194,522</u>

The average weekly number of employees during the period was made up as follows:

	<u>Number</u>	<u>Number</u>
Sales and marketing	5	6
Operations	39	30
Finance	30	14
	<u>74</u>	<u>50</u>

5. PENSION SCHEME

All employees are members of the Legal & General Group Pension scheme, details of which are included in the accounts of that company.

NOTES TO THE ACCOUNTS (CONTINUED)

6. TAXATION

Taxation on the profit on ordinary activities comprised:

	<u>1993</u> £	<u>1992</u> £
U.K. Corporation taxation charge at 33%	(114,758)	(161,360)
Prior year over provision	24,994	18,006
	<u>(89,764)</u>	<u>(143,354)</u>

7. MORTGAGE ADVANCES

	<u>1993</u> £	<u>1992</u> £
1 JANUARY	315,180,297	258,131,356
Movement in the year:		
Mortgage originations and further advances	14,019,792	40,751,718
Deferred Interest	1,035,395	2,205,138
Purchase of mortgage advances	3,092,471	57,296,200
Sale of mortgage advances	(19,943,584)	(13,438,830)
Redemption of mortgage advances	(38,892,544)	(28,382,083)
Provision for doubtful debts	138,685	(1,383,202)
31 DECEMBER	<u>274,630,512</u>	<u>315,180,297</u>

8. INVESTMENT IN SUBSIDIARY

	<u>1993</u> £	<u>1992</u> £
NET BOOK AMOUNT		
1 JANUARY and 31 DECEMBER	100	100

The subsidiary company (currently dormant) is:

<u>NAME</u>	<u>COUNTRY OF INCORPORATION</u>	<u>PERCENTAGE SHAREHOLDING</u>
Residential Mortgages No.1 Limited	United Kingdom	100%

NOTES TO THE ACCOUNTS (CONTINUED)

9. INTANGIBLE ASSETS

	Pool Insurance Premiums	Development Costs-Computer System	Treasury Instruments Premiums	Total 1993
	£	£	£	£
COST				
1 January 1993	2,445,690	0	633,362	3,079,052
Additions	0	384,948	7,704	392,652
Expired Contracts	886	-	(506,228)	(505,342)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1993	2,446,576	384,948	134,838	2,966,362
AMORTISATION				
1 January 1993	(792,646)	0	(496,422)	(1,289,068)
Charge	(432,750)	0	(124,101)	(556,851)
Expired Contracts	• (886)	-	497,370	496,484
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1993	(1,226,282)	0	(123,153)	(1,349,435)
NET BOOK AMOUNT				
31 DECEMBER 1993	<u>1,220,294</u>	<u>384,948</u>	<u>11,685</u>	<u>1,616,927</u>
1 JANUARY 1993	<u>1,653,044</u>	<u>0</u>	<u>136,940</u>	<u>1,789,984</u>

NOTES TO THE ACCOUNTS (CONTINUED)

10. TANGIBLE ASSETS

	<u>1993</u> £
COST	
1 January	0
Additions	151,017
	<hr/>
31 December	151,017
	<hr/>
DEPRECIATION	
1 January	0
Depreciation	(30,468)
	<hr/>
31 December	(30,468)
	<hr/>
NET BOOK AMOUNT:	
31 December 1993	<u>120,549</u>
1 January 1993	<u>0</u>

11. DEBTORS

	<u>1993</u> £	<u>1992</u> £
Accrued Interest Income	260,600	-
Other Debtors	9,758,634	9,675,706
	<hr/>	<hr/>
	10,019,234	9,675,706
	<hr/>	<hr/>

Included in Other Debtors are loans of £1,092,840 (1992, £1,769,074) to Temple Court Originations Limited of which £791,618 (1992, £1,092,840) is repayable after more than one year.

NOTES TO THE ACCOUNTS (CONTINUED)

12. CREDITORS: amounts falling due within one year

	<u>1993</u> £	<u>1992</u> £
Amounts due to group undertakings	248,428,801	273,166,814
Amounts due to subsidiary undertaking	100	100
Euro Commercial Paper	66,391,018	46,260,207
Other Creditors	1,405,741	3,107,392
Corporation Tax	114,758	161,360
	<u>316,340,418</u>	<u>322,695,873</u>

13. SHARE CAPITAL

	<u>1993</u> £	<u>1992</u> £
Authorised:		
15,000,000 ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>
	<u>1993</u> £	<u>1992</u> £
Issued and Fully Paid:		
6,000,000 Ordinary Shares of £1 each	<u>6,000,000</u>	<u>6,000,000</u>

14. MOVEMENT IN SHAREHOLDERS FUNDS

	<u>1993</u> £	<u>1992</u> £
Shareholders Equity at 1 January	4,268,431	4,127,215
Profit for the year	380,146	141,216
Shareholders Equity at 31 December	<u>4,648,577</u>	<u>4,268,431</u>

15. FINANCIAL COMMITMENTS

As at 31 December 1993 the Company had the following financial commitments in the ordinary course of business.

	<u>1993</u>	<u>1992</u>
- Mortgage offers issued not completed	£1m	£2m

NOTES TO THE ACCOUNTS (CONTINUED)

16. SECURITISED MORTGAGES AND RELATED ASSETS

In December 1989 and April 1991, Legal & General Mortgage Services Limited, sold portfolios of mortgages amounting to £148m and £150m respectively to Temple Court Originations Limited which, through its wholly owned subsidiary undertakings Temple Court Mortgages (No.1) Plc and Temple Court Mortgages (No.2) Plc, issued securities secured on the mortgages to finance their purchase. The terms for issue of the securities included provisions that the holders of securities have no recourse to Legal & General Mortgage Services Limited. Neither Legal & General Mortgage Services Limited, nor any other member of the Legal & General Group are obliged, and do not intend, to support any losses, should they occur, of Temple Court Originations Limited or its subsidiaries. The proceeds of the mortgage assets are used to pay the interest due on the floating rate notes and other administration expenses. Any residue is paid as deferred consideration to Legal & General Mortgage Services Limited.

Temple Court Originations Limited and its subsidiaries are quasi subsidiaries of the Group within the meaning of FRED 4 on reporting the Substance of Transactions. The summarised financial statements of the quasi subsidiaries at 31 December showed:

	Assets 1993 £m	Liabilities 1993 £m	Assets 1992 £m	Liabilities 1992 £m
Securitised mortgages	234.1		239.2	
Other related assets	9.8		20.7	
Non-recourse borrowings		(243.9)		(259.9)
Share capital and reserves		-		-
Quasi subsidiaries totals	243.9	(243.9)	259.9	(259.9)
Mortgage backed securities held at the end of the year	(15.5)*		-	
Borrowings for mortgage lending		15.5*		-
Amounts shown in linked presentation	228.5	(228.5)	259.9	(259.9)

The quasi subsidiaries had gross financial income and expenses of approximately £22.3m (1992, £38.6m). The Company profit includes £5.3m (1992, £2.9m) receivable from these arrangements.

* During 1993 the Company purchased as investments £16.1m of notes issued by TCM 1 & 2, of which £0.6m were subsequently sold before the year end. The investments have been included as mortgage backed securities.

NOTES TO THE ACCOUNTS (CONTINUED)

17. SEGMENTAL DISCLOSURE

The Company has not made any segmental disclosure as this is disclosed in the accounts of the ultimate holding Company, Legal & General Group Plc.

18. CASHFLOW STATEMENT

In accordance with Financial Reporting Statement 1, the Company has not prepared a Cashflow Statement as the ultimate holding Company, Legal & General Group Plc, has included a Group Cashflow Statement within its financial statements.

19. HOLDING COMPANY

The ultimate holding Company is Legal & General Group Plc, a Company incorporated in the United Kingdom. This is both the largest and smallest group into which the Company's accounts are consolidated. A copy of these accounts can be obtained from:

Legal & General Group Plc
Temple Court
11 Queen Victoria Street
LONDON EC4N 4TP