



Sun Banking Corporation Limited

Report and Financial Statements

DIRECTORS

R W S Baker*
M E Bates (Chairman)***
M A Hasley***
G E Lefevre FCCA*
P Lucas**
K J H Malde BA, FCCA**
P G Newman ACIB*
C C Reid FCCA***
M T J Sismey-Durrant BSc, M.Phil, ACIB (Managing)**

SECRETARY

P H Green

REGISTERED OFFICE

Bank House
Primett Road
Stevenage
Hertfordshire
SG1 3UQ

REGISTERED NUMBER

2222856 England

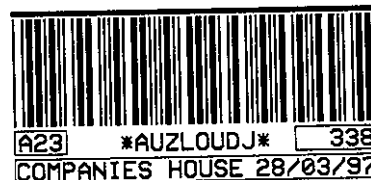
AUDITORS

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

* External Non Executive Director and Member of the Audit Com

** Full time Executive Director

*** Group Non Executive Director





Sun Banking Corporation Limited

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 1996.

ACTIVITY

The principal activity of the group is that of providing a range of banking services and the Bank is an Authorised Institution under the Banking Act 1987.

REVIEW OF ACTIVITIES

Sun Banking Corporation Limited (Sun Bank) is a centralised operation based in Stevenage, Hertfordshire and does not operate a branch network. Its principal businesses are:

- Residential Mortgage Lending
- Asset Finance (Leasing and Hire Purchase)
- Retail and wholesale deposit taking, both onshore and offshore, through its Jersey subsidiary, Sun Banking Corporation (Jersey) Limited.

In addition to the above, Sun Bank commenced lending against the security of residential investment properties during 1996.

As a centralised business a strong commitment to high quality customer service is of paramount importance. This is provided through a well trained and motivated workforce supported by high grade systems and a telephone call centre.

The retail market in which the Bank operates for most of its business saw a number of new entrants during the year - supermarket and life assurance banks were formed. Mostly focused on an overcrowded and highly competitive savings and mortgage market, it is unclear whether this market can sustain these and the many more traditional banks and building societies in the long term. Certainly, at Sun Bank we are pleased to have such an established retail funding base for our mortgage lending. We also recognise the value of business diversification into the corporate market through our asset finance business. More diversification in the commercial market is planned for 1997. This will ensure a broader range of activities to achieve a more balanced business risk profile and reduce over reliance on the retail mortgage market.

The economic uncertainty induced by the forthcoming election in 1997 and the prospect of potentially rising interest rates should make all lenders take heed of the experience of the last recession. There are already signs of sharp increases in property prices in some parts of the country and we recognise the risks this can introduce, particularly for borrowers coming off big discounted rates on mortgage products into a rising interest rate environment.

Being part of the Sun Life of Canada Group brings significant benefits for Sun Bank, particularly in terms of its distribution capability through its direct sales force and having the support of its financial strength. With its backing, Sun Bank will realise its strategic objective of diversifying its assets, its distribution and its customer base and thereby generating superior returns.



BUSINESS LINES

We have been very pleased with the positive performance of Sun Bank in 1996. In particular, new business for both mortgage and asset finance lending has increased significantly and profits for the year are up 21% on 1995.

Mortgages

We distribute our mortgages mainly through the Sun Life of Canada sales force and through Independent Financial Advisers (IFAs). We offer a full range of competitive and innovative variable and fixed rate products and have for the fourth year in succession won a 'What Mortgage' award for excellence in mortgage lending over the long term. New mortgage products launched by us during the year included a residential investment mortgage and a flexible payment mortgage and we intend to explore further lending opportunities in the Channel Islands in 1997 via our Jersey subsidiary.

After many years of recession, the housing market has improved considerably over the past year on the back of a sustained low interest rate environment and falling unemployment. The pace of the market recovery has been affected, however, by the continuing shortage of properties for sale. House prices on average have risen nationally by around 8%, the fastest rate of increase since 1989 and this has resulted in a large decrease in the number of borrowers with negative equity. Sales of new homes have been running at around 20% higher than 1995 and new home starts by the private sector have also been significantly higher than the previous year.

The fierce competition for new mortgage business has continued from 1995 with no easing of the heavy discounts and cash-back schemes for new business. The marketplace has been impacted by the debate amongst building societies about the benefits of mutuality status and the incentives offered to their borrowers by means of the distribution of their surpluses. In addition, thousands of borrowers and depositors have been locked into some building societies about to shed their mutuality status as they await the windfalls on offer.

Against this background, we have continued our prudent approach to new business and not tried to increase our mortgage book regardless of cost or underwriting standards as we believe that our approach avoids problems for the future. However, we have experienced a very encouraging year despite the fact that the mortgage balances under management showed a slight decline from the previous year. Compared to 1995, the value of new mortgage applications increased 59% whilst the value of new mortgage completions increased by 211% to £76.5 million, with 70% of the mortgage business being for house purchases. All this was attributable to the effectiveness of the first full year of the integrated Sun Life of Canada sales force and measures we put in place during the year to improve efficiency for new business underwriting and this has laid a firm foundation for 1997 and beyond.

Asset Finance

We further developed our strong presence in the small ticket broker market for this activity and have continued to grow cautiously, providing instalment credit facilities secured on vehicles and equipment for professional people and well-established small businesses.



Sun Banking Corporation Limited

During the year, a full strategic review was undertaken for this business resulting in us broadening our scope, providing finance facilities of up to £1 million to good quality medium and large companies.

Overall, the principal balances increased by a credible 23% during the year. We currently handle more than 4000 agreements with minimal bad debts and an excellent return on capital employed.

FUNDING

We offer a comprehensive and competitive range of deposit accounts for all types of investors whether they require instant access, regular income or longer term fixed rate savings. In particular, we specialise in the provision of a wide range of TESSA accounts. Our accounts regularly feature in the 'Best Buy' tables and in media comment in various national publications.

Retail deposits are received direct from the public, and solicited through IFA's and the Sun Life of Canada sales force. They are generated both onshore and via our subsidiary company in Jersey. Wholesale deposits are received principally from specialist money market brokers.

Overall, customer deposit balances increased by 9% to £395 million covering 40,000 accounts, with retail deposits making 70% of the total. This was very satisfactory in an environment where we had the first year of TESSA maturities, amounting to in excess of £55 million in 1996. We responded to this challenge by offering a competitive and wide range of the second generation TESSA accounts that resulted in the re-investment of over 60% of the maturing deposits.

During the year, we re-financed a syndicated revolving credit facility for £90 million at a substantially reduced margin. Despite the issue of only a limited number of invitations to participate, the facility was significantly over-subscribed and this reflected the continued institutional confidence in Sun Bank.

ASSET QUALITY

Our fundamental credit objective is to attract quality borrowers - applying consistently prudent policies for all our lending activities. This approach still allows us to respond to good lending propositions which do not fit normal parameters, relying on more fundamental banking principles of debt serviceability and adequacy of security.

We also believe in the need for sympathetic and constructive support for those borrowers who encounter financial problems, but this is backed by swift and effective litigation in extreme cases.

We are pleased to report that the constant use of up to date arrears management and debt recovery techniques by our in-house arrears counselling and litigation teams has ensured a significant drop in non-performing loans during the year. Mortgage non - performing cases declined by 26% during the year whilst the number of properties in possession showed a drop of 22%. Asset finance arrears remain at very low levels and we believe that they are significantly lower than those experienced elsewhere in the industry.



Sun Banking Corporation Limited

We utilise a number of risk management techniques to assess asset quality. The total mortgage portfolio remains well diversified in terms of geographic spread, and seasoning with a relatively small average mortgage size. There has been minimal arrears experienced in the mortgage lending done over the last four years. The asset finance portfolio maintains a good spread of asset types and borrower profiles.

LIQUIDITY

We have always maintained a very conservative liquidity policy and operate with prudent liquidity ratios by ensuring that there are always in place substantial committed but undrawn lines of credit from a number of major banks.

FINANCIAL PERFORMANCE

Our post tax profit for the year was £2.9 million compared with £2.4 million in 1995, an increase of 21%. Decreases in both net interest income and net fee income were more than offset by lower operating expenses and a significant reduction in provisions for bad debts.

Net interest income and fee income were lower due to the decline in the mortgage assets under management and reduced interest margins generally on new mortgage business. Limited discounts were offered for new mortgage business and a conservative policy is followed on accounting for these by writing them off to the profit and loss account during the period of the discount. The cost of this in 1996 was £0.5 million. As all the discount mortgages are subject to claw-back through early redemption penalties, the benefit of the income from these mortgages will be realised in future years.

The cost income ratio increased marginally during the year to 49.7%, the inevitable consequence of the accounting policy on discounts and further significant investment in technology. However, the reduction in the operating expenses was the result of improvements in operating efficiency, reflected in the ratio of total expenses to mean loan and cash assets under management of 1.0%, which compares favourably with our competitors.

The significant reduction in non performing loans resulted in a decline in provisions for bad debts, despite an increase in the level of general provisions to reflect caution at the current stage of the economic cycle.

PEOPLE, TECHNOLOGY AND THE FUTURE

During 1996 significant productivity improvements were achieved through automation and extensive staff training. The Customer Focus programme introduced some years ago to identify potential service improvements will be further enhanced by an initiative for 1997 focused on refining and improving customer management.



Sun Banking Corporation Limited

Close alignment of human resources with business strategy will be strengthened through increased commitment to staff training and development. It is already encouraging to note the high proportion of staff who have commenced studying for or qualified in professional examinations during 1996.

In 1996 the second phase of a client focused integrated banking system was implemented successfully in support of the asset finance business. Increased investment in the development of this system will accompany a significant expansion of document imaging systems in 1997. Both initiatives will reinforce our flexible but robust technology platform and improve marketing and service efficiency.

It is pleasing that no significant exposure in respect of our core information systems to millennium computer problems is anticipated reflecting the continued commitment to maintaining leading edge systems in support of the Bank.

Our commitment to the local community in Stevenage was reflected in our decision to sponsor the Vauxhall Conference Champions, Stevenage Borough Football Club, for which the Bank has received significant national media coverage in the press and on television. This has proved to be a most cost-effective means of promoting the Bank, whilst also drawing significant support from the staff.

The last year was one of major progress for Sun Bank and a clearer direction now exists for its future growth and development. This has largely been achieved through the untiring commitment and dedication of all the staff and management which has been greatly appreciated. It is due to them that we have emerged from yet another difficult year with success.

FIXED ASSETS

The changes in tangible fixed assets are summarised on pages 22 and 23 in note 15 to the accounts.

RESULTS AND DIVIDENDS

The profit for the year attributable to shareholders amounted to £2,904,000 (1995 - £2,402,000) and is shown in the consolidated profit and loss account on page 10. An interim dividend of £2,000,000 (1995 - £2,600,000) was paid during the year. The directors do not recommend the payment of a final dividend (1995 - £nil) and the retained profit has been transferred to reserves.

CAPITAL

The Bank's capital ratios remain well in excess of the internationally agreed minimum requirements and combined with a lack of asset growth provided the opportunity to make a distribution in the form of a dividend as mentioned above.



DIRECTORS AND DIRECTORS' INTERESTS

Mr M E Bates replaced Mr R W S Baker as Chairman from 1 January 1997. Mr G L Willman resigned and Mr K M Hilton retired as directors on 28 June 1996 and 31 December 1996 respectively. Mr P G Newman and Mr C C Reid were appointed as directors on 1 June 1996 and 1 January 1997 respectively.

The remaining directors served office throughout the year and in accordance with the Company's Articles of Association, they retire by rotation and being eligible, offer themselves for re-election at the Annual General Meeting.

The present Board of Directors is shown on page 1. At no time during the year have the directors or their families had any beneficial interest in the shares of the company or any other company within the group. None of the directors had a material interest in any contract significant to the company's business.

EMPLOYMENT

The group's employment policy is one of equal opportunity with a commitment to the impartial treatment of all staff regardless of race, colour, ethnic or national origins, sex or marital status or disability. All available positions in the group are open to all employees based on their aptitudes and abilities. The Bank regularly undertakes a comprehensive training programme to enhance all employees' understanding of the Bank's products and services.

The group's remuneration policies are regularly reviewed to ensure competitiveness necessary to attract and retain high quality staff. Regular staff appraisals are carried out to encourage personal development and ensure that the individual performance and objectives are focused on achieving the group's strategic initiative. The management have a continual responsibility to ensure that their staff are fully made aware of developments in, and financial results of, the Bank and the group.

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 the group and of the profit or loss of the group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group 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 the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Sun Banking Corporation Limited

AUDITORS

A resolution for the re-appointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P H GREEN

Secretary
25 March 1997



Sun Banking Corporation Limited

REPORT OF THE AUDITORS TO THE MEMBERS OF SUN BANKING CORPORATION LIMITED

We have audited the financial statements on pages 10 to 27 which have been prepared under the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 7 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group'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 affairs of the company and of the group as at 31 December 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

28 March 1997



Sun Banking Corporation Limited

Consolidated Profit and Loss Account for the Year Ended 31 December 1996

	Notes	<u>1996</u> £000	<u>1995</u> £000
Interest receivable:			
Interest receivable and similar income arising from debt securities		494	1,128
Other interest receivable and similar income	5	<u>64,958</u>	<u>66,807</u>
		65,452	67,935
Interest payable	6	<u>(57,235)</u>	<u>(59,499)</u>
Net interest income		8,217	8,436
Fees and commissions receivable		3,021	3,493
Fees and commissions payable		<u>(1,215)</u>	<u>(1,424)</u>
Net fees and commissions		<u>1,806</u>	<u>2,069</u>
Total operating income		10,023	10,505
Administrative expenses	7	(4,482)	(4,750)
Depreciation and amortisation	15	<u>(551)</u>	<u>(580)</u>
Total operating expenses		<u>(5,033)</u>	<u>(5,330)</u>
Operating profit before provisions		4,990	5,175
Provisions for bad and doubtful debts	12	<u>(1,063)</u>	<u>(1,582)</u>
Operating profit on ordinary activities before taxation		3,927	3,593
Tax on profit on ordinary activities	8	<u>(1,023)</u>	<u>(1,191)</u>
Profit for the financial year	9	2,904	2,402
Dividend	10	<u>(2,000)</u>	<u>(2,600)</u>
Transferred to/(from) Revenue Reserves	21	<u>904</u>	<u>(198)</u>

A statement of total recognised gains and losses has not been included as there were no recognised gains or losses for the current or previous financial year other than those already dealt with in the profit and loss account.

All amounts shown above derive from continuing operations.

The notes on pages 13 to 27 form an integral part of these accounts



Sun Banking Corporation Limited

Consolidated Balance Sheet as at 31 December 1996

	Notes	1996 £000	1995 £000
Assets			
Loans and advances to banks	11	27,364	18,851
Loans and advances to customers	12	454,675	425,762
Loans and advances to customers subject to securitisation arrangements	13	122,966	152,476
Less: non-returnable finance		(122,966)	(152,476)
Debt securities	14	21,400	34,000
Amounts due from fellow subsidiaries		66	-
Tangible fixed assets	15	4,341	4,616
Other assets		2,186	1,983
Prepayments and accrued income		10,285	8,309
Unamortised fees and commissions paid		2,363	1,898
Total Assets		<u>522,680</u>	<u>495,419</u>
Liabilities			
Deposits by banks	16	47,173	50,453
Customer deposits	17	395,280	361,281
Deep Discount Bond	18	31,522	35,260
Other liabilities		4,217	5,081
Provision for liabilities and charges	19	650	410
		<u>478,842</u>	<u>452,485</u>
Called up Share capital	20	25,500	25,500
Other Reserves		39	39
Revenue Reserves		5,799	4,895
Equity shareholders' funds	21	31,338	30,434
Subordinated loan capital	22	12,500	12,500
		<u>43,838</u>	<u>42,934</u>
Total Liabilities		<u>522,680</u>	<u>495,419</u>
Memorandum items			
Other commitments	25	17,373	11,595

Approved by the Board of Directors on 25 March 1997

Director

25 March 1997

Director

25 March 1997

The notes on pages 13 to 27 form an integral part of these accounts



Sun Banking Corporation Limited

Balance Sheet as at 31 December 1996

	Notes	1996 £000	1995 £000
Assets			
Loans and advances to banks	11	27,201	18,805
Loans and advances to customers	12	444,913	413,862
Loans and advances to customers subject to securitisation arrangements	13	122,966	152,476
Less: non-returnable finance		(122,966)	(152,476)
Debt securities	14	21,400	34,000
Investment in subsidiary undertakings	23	3,500	3,500
Amounts due from group undertakings		8,718	10,951
Amounts due from fellow subsidiaries		66	-
Tangible fixed assets	15	4,341	4,616
Other assets		2,176	1,973
Prepayments and accrued income		10,265	8,280
Unamortised fees and commissions paid		2,361	1,883
Total Assets		<u>524,941</u>	<u>497,870</u>
Liabilities			
Deposits by banks	16	47,310	50,530
Customer deposits	17	397,100	363,778
Deep Discount Bond	18	31,522	35,260
Other liabilities		4,762	5,120
Provision for liabilities and charges	19	650	410
		<u>481,344</u>	<u>455,098</u>
Called up Share Capital	20	25,500	25,500
Revenue Reserves		<u>5,597</u>	<u>4,772</u>
Equity shareholders' funds	21	31,097	30,272
Subordinated loan capital	22	<u>12,500</u>	<u>12,500</u>
		<u>43,597</u>	<u>42,772</u>
Total Liabilities		<u>524,941</u>	<u>497,870</u>
Memorandum items			
Other commitments	25	<u>17,360</u>	<u>11,595</u>

Approved by the Board of Directors on 25 March 1997

Director

25 March 1997

Director

25 March 1997

The notes on pages 13 to 27 form an integral part of these accounts



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention. They are drawn up in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and in accordance with applicable accounting standards and Statements of Recommended Accounting Practice issued by the British Bankers Association.

LOANS AND ADVANCES

Loans and advances to customers are stated after deduction of amounts which in the opinion of the directors are presently required both as specific and general provisions for bad debts. The charge for bad and doubtful debts is inclusive of provisions for irrecoverable interest.

Throughout the year and at the end of the year, individual assessments are made of all loans and advances which are three months or more in arrears.

A specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired mortgage advances, account is taken of the amount recoverable under the mortgage indemnity policy and anticipated realisation costs.

A general provision is made against all loans and advances to provide for losses not identified separately but known from experience to exist.

FEEES AND COMMISSIONS PAID

Introductory fees on the acquisition of mortgages are amortised evenly over five years and, where a mortgage is redeemed, the unamortised cost is written off in the year of redemption. Introductory fees on the acquisition of fixed rate deposits which have a duration of two years and over are amortised evenly over the term of the deposits. Introductory fees on the asset financing activity are amortised on the sum-of-digits basis over the term of the agreements. The unamortised costs on early settlements are written off in the year of redemption.

Arrangement and other similar fees incurred in connection with loan facility agreements entered into by the company are deferred and amortised over the expected term of the loan to the extent that they represent adjustments to the interest rate or terms which would have been applied to the facility in the absence of such fees.

Arrangement and other similar fees incurred in arranging securitisation are amortised over the anticipated life of the funding.



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

1. PRINCIPAL ACCOUNTING POLICIES

continued

MORTGAGE DISCOUNTS AND CASHBACKS

Both discounts and cashbacks are subject to clawbacks by means of early redemption penalty interest. The cost of discounts is charged during the period of the discount and the cost of cashbacks is amortised over five years.

DEPRECIATION

Depreciation is provided on a straight line basis at a rate of 20% per annum on pre 1994 acquired computers, 33% per annum on post 1994 acquired computers, 20% per annum on machinery and furniture, and on reducing balance basis at a rate of 25% per annum on motor vehicles. The freehold land and building is depreciated on a straight line basis at a rate of 2% per annum.

ASSET FINANCING

The amounts due on all asset finance agreements are recorded in the balance sheet as loans and advances to customers at the amount of the net investment in the agreements after provisions for bad and doubtful debts. The income is accrued over the term of the agreement on the sum-of-digits basis.

DEFERRED TAXATION

Provision is made for deferred taxation, using the liability method, to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes, except to the extent that the directors consider that a liability or asset will not crystallise in the foreseeable future.

DEBT SECURITIES

Debt securities are held for investment purposes and intended for use on a continuing basis in the activities of the Bank. Debt securities held for investment purposes are shown at their maturity value. Premiums and discounts, which are reflected in the balance sheet within other assets and other liabilities, are amortised on a systematic basis to maturity and taken to the profit and loss account.

PENSIONS

The company participates in a defined benefit group scheme operated by the ultimate parent undertaking. Contributions to this fund are charged to the profit and loss account so as to spread the cost of the pension over the employees' working lives within the group.



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

1. PRINCIPAL ACCOUNTING POLICIES

continued

LEASING COMMITMENTS

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

INTEREST RATE CONTRACTS

The company enters into interest rate swap contracts to hedge its portfolio of fixed rate loans and deposits. The cash flows of these contracts are accounted for on an accruals basis. The company may, from time to time, take advantage of favourable market conditions to terminate a swap contract. Where such a transaction does not adversely distort the future profitability of the portfolio, the swap termination profit or loss is taken to the profit and loss account immediately.

CASHFLOW STATEMENT

A cashflow statement has not been presented in the financial statements as the Bank is a wholly owned subsidiary of a UK parent and therefore, under the revised FRS1, no such statement is required.

2. PARENT UNDERTAKING

The immediate parent undertaking is Confederation Financial Services (UK) Limited, registered in England and Wales. The accounts of the immediate parent undertaking are available from Bank House, Primett Road, Stevenage, Hertfordshire, SG1 3UQ. The ultimate parent undertaking and controlling party is Sun Life Assurance Company of Canada, a mutual company incorporated in Canada. The annual report of the ultimate parent undertaking can be obtained from the Company Secretary, Sun Life Assurance Company of Canada, Sun Life Centre, 150 King Street West, Toronto, Ontario, M59 1J9, Canada.

3. BASIS OF CONSOLIDATION

The group financial statements consolidate the financial results of Sun Banking Corporation Limited and all its subsidiary undertakings made up to 31 December 1996.

No profit and loss account is presented for Sun Banking Corporation Limited as permitted by Section 230 of the Companies Act 1985.

4. SEGMENTAL REPORTING

In the opinion of the directors, the company has only one class of business being banking which is wholly conducted within the United Kingdom and Channel Islands.



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

5. INTEREST RECEIVABLE

Aggregate rentals receivable in relation to lease financing and instalment finance were £21.2 million (1995 - £19.8 million) and the interest receivable thereon is £4.5 million (1995 - £4.4 million).

6. INTEREST PAYABLE

Included in interest payable is an amount of £756,742 (1995 - £844,713) representing the interest charge on the subordinated loan capital.

7. ADMINISTRATIVE EXPENSES

	<u>1996</u> £000	<u>1995</u> £000
Administrative expenses include:-		
Staff costs		
Wages and salaries	2,624	2,704
Social Security costs	202	212
Other pension costs	<u>230</u>	<u>220</u>
Total staff costs	3,056	3,136
Auditors' remuneration		
Audit services	58	47
Non audit services	23	23
Operating lease rentals	79	91
Other administrative expenses	<u>1,266</u>	<u>1,453</u>
	<u>4,482</u>	<u>4,750</u>

	<u>Number</u>	<u>Number</u>
Monthly average number of persons employed during the year	<u>104</u>	<u>108</u>

The aggregate amount of emoluments paid to directors consisted of:-

	<u>£000</u>	<u>£000</u>
Fees	16	10
Other emoluments (including pension contributions)	325	493
Compensation to director for loss of office	<u>-</u>	<u>23</u>
	<u>341</u>	<u>526</u>

Particulars of directors' emoluments including amounts awarded under the profit related scheme but excluding pension contributions were:-

	<u>£000</u>	<u>£000</u>
Chairman	-	-
Highest paid director	<u>110</u>	<u>204</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

The emoluments of both the executive and non-executive directors (excluding pension contributions) are categorised as follows:-

			Number of Directors	
			<u>1996</u>	<u>1995</u>
£0	-	£5,000	4	4
£5,001	-	£10,000	3	3
£65,001	-	£70,000	1	-
£105,001	-	£110,000	2	-
£120,001	-	£125,000	-	2
£200,001	-	£205,000	-	1

8. TAXATION

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
The Bank and its subsidiary undertakings		
United Kingdom Corporation Tax charge at 33% (1995 - 33%)	536	610
Foreign tax	30	9
Tax credit on franked income	218	290
Deferred tax	240	210
Adjustment to prior year taxation	(1)	72
Charge for the year	<u>1,023</u>	<u>1,191</u>

9. PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

The profit attributable to ordinary shareholders dealt with in the financial statements of the company was £2,825,315 (1995 - £2,608,000).

10. DIVIDENDS

An interim dividend of 7.84 pence (1995 - 10.20 pence) per share was paid on the ordinary shares.

11. LOANS AND ADVANCES TO BANKS

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Remaining Maturity:				
On demand	164	47	1	1
Within three months	26,306	17,800	26,306	17,800
Over five years	894	1,004	894	1,004
	<u>27,364</u>	<u>18,851</u>	<u>27,201</u>	<u>18,805</u>

The Bank is required to maintain balances with the Bank of England which at 31 December 1996 amounted to £894,000 (1995 - £1,004,000).



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

12. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Mortgage advances	398,558	383,239	388,796	371,339
Instalment finance	27,691	21,659	27,691	21,659
Lease financing	16,495	14,182	16,495	14,182
Other advances	<u>11,931</u>	<u>6,682</u>	<u>11,931</u>	<u>6,682</u>
	<u>454,675</u>	<u>425,762</u>	<u>444,913</u>	<u>413,862</u>

The balances above are inclusive of capital and interest arrears, less provisions.

Included in instalment finance above are amounts in respect of hire purchase contracts amounting to £17.5 million (1995 - £16.4 million).

The cost of assets acquired during the year for the purpose of letting under lease financing and hire purchase contracts amounted to £9.1 million (1995 - £10.4 million) and £13.5 million (1995 - £11.3 million) respectively.

The total loans and advances to customers are repayable as follows:-

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Remaining Maturity:				
On demand	5,832	6,091	5,832	6,003
Within three months	10,883	1,894	10,883	1,894
Between three months and one year	17,811	11,630	17,811	11,630
Between one year and five years	32,167	27,493	32,167	27,493
Over five years	<u>387,982</u>	<u>378,654</u>	<u>378,220</u>	<u>366,842</u>
	<u>454,675</u>	<u>425,762</u>	<u>444,913</u>	<u>413,862</u>

and stated net of the following provisions:-

Specific Provisions

Balance at 1 January	2,445	2,118	2,438	2,118
Applied in writing off advances				
net of recoveries	(1,387)	(1,257)	(1,393)	(1,261)
Charge for the year	<u>909</u>	<u>1,584</u>	<u>922</u>	<u>1,581</u>
Balance at 31 December	<u>1,967</u>	<u>2,445</u>	<u>1,967</u>	<u>2,438</u>

General Provision

Balance at 1 January	279	281	273	275
Charge for the year	<u>154</u>	<u>(2)</u>	<u>153</u>	<u>(2)</u>
Balance at 31 December	<u>433</u>	<u>279</u>	<u>426</u>	<u>273</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

13. LOANS AND ADVANCES SUBJECT TO SECURITISATION ARRANGEMENTS

Sun Banking Corporation Limited sold, for full value, a portfolio of secured loans in a public securitisation on 19 December 1994. The total value of assets under this transaction as at 31 December 1996 were £123.0 million (1995 - £152.5 million). The assets sold comprised of loans which were secured by first charge on mortgages over residential property.

An analysis of the amounts sold together with the current outstanding balance under the transaction is set out below:

Description of loans	Type of Transaction	Aggregate value of loans sold 1994 £000	Balance outstanding 31 December 1996 £000	Balance outstanding 31 December 1995 £000
Securitised domestic loans				
- First Mortgages	Securitisation	<u>174,991</u>	<u>122,966</u>	<u>152,476</u>

(a) Description of assets sold

The assets sold comprise receivables which were originated by Sun Banking Corporation Limited in the normal course of its activity of providing finance. The receivables have a range of interest rates and repayment periods and meet established lending criteria subject to the requirements of individual transactions.

(b) Income and expense recognised during the year

Sun Banking Corporation Limited receives income from the purchaser of the loans which consists of the income derived from the loans after deducting the funding costs and other expenses.

(c) Terms of loan substitutions

The securitisation provides that Sun Banking Corporation Limited may offer to sell further loans subject to their meeting certain criteria. No such sale has yet been made.

(d) Terms of loan repurchase

Terms regarding the repurchase of loans vary depending on the circumstances of each transaction. Sun Banking Corporation Limited generally has no obligation to repurchase loans other than in relation to any breach of warranty at the time of sale.



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

13. LOANS AND ADVANCES SUBJECT TO SECURITISATION ARRANGEMENTS continued

(e) **Claims on proceeds generated by assets**

All proceeds are payable to an appointed trustee and are held on trust for the beneficial owner of the loans, subject to Sun Banking Corporation Limited's right to receive certain entitlements.

(f) **Linked presentation**

Under the provisions of Financial Reporting Standard No. 5 ("FRS5"), assets in connection with public securitisation transactions have been included in these financial statements using a linked presentation.

(g) **Ownership of public securitisation vehicles**

The securitisation offering documentation sets out the acknowledgement of the trustee to the providers of finance that they would seek repayment of the loans only to the extent that repayment is funded by proceeds generated by the loans and they will not seek recourse in any other form.

(h) **Statements of non-recourse**

Other than as disclosed on the balance sheet, Sun Banking Corporation Limited is not obliged to support any losses in respect of public securitisations, nor does it intend to do so.

(i) **Credit enhancement**

There are amounts due in respect of the securitised loans which comprise of subordinated loans to the purchasers of the assets. These amounts are held by the purchasers in order to meet any losses arising on the assets sold which may not be recovered out of income due to Sun Banking Corporation Limited. These amounts are repayable in accordance with the terms of the notes issued in connection with the securitisation to the extent that such amounts are not required to redress losses incurred on the securitised portfolio. The subordinated loan of £1.75 million from Sun Banking Corporation Limited is included under Other Assets.

(j) **Securitisation vehicles**

The company formed in connection with the public securitisation, Maple Mortgage Securities No. 1 plc ("MMS"), is registered in England and Wales. The holding company of MMS is Maple Mortgage Holdings Limited ("MHL"), which is a private company with limited liability. The entire share capital of MHL is held beneficially by a trustee for the benefit of the MHL creditors, or the holders of notes issued by any wholly owned subsidiary of MHL and ultimately, for charitable purposes.



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

13. LOANS AND ADVANCES SUBJECT TO SECURITISATION ARRANGEMENTS continued

(j) Securitisation Vehicle (continued)

Under the provisions of FRS5 the results of MHL have, as a quasi-subsiidiary, been included in Sun Banking Corporation's group accounts. Detailed below are the summarised unaudited consolidated financial statements of MHL for the year to 31 December 1996.

	<u>1996</u> £000	<u>1995</u> £000
Balance sheet:		
Loans and advances to customers	122,966	152,476
Other assets	8,056	8,509
Creditors	(131,022)	(160,985)
Total net assets	<u> - </u>	<u> - </u>
	<u>1996</u> £000	<u>1995</u> £000
Profit and Loss account:		
Total income	21,388	28,394
Total expenses	(21,388)	(28,447)
Profit/(Loss) after taxation	<u> - </u>	<u> (53) </u>

A statement of total recognised gains and losses has not been included as there were no recognised gains or losses for the current or previous financial year other than those already dealt with in the profit and loss account.

Included under fees and commission receivable on page 9 is a gross distribution from the securitised vehicle of £1,287,000 (1995 - £1,449,000).

	<u>1996</u> £000	<u>1995</u> £000
Cash flow statement:		
Net cash (outflow)/inflow before financing	(588)	6,952
Net cash inflow from financing	<u> - </u>	<u> - </u>
(Decrease)/increase in cash and cash equivalents	<u>(588)</u>	<u>6,952</u>

14. DEBT SECURITIES

	<u>1996</u> £000	<u>1995</u> £000
For the Group and Company		
Issued by other issuers:		
Bank Certificates of Deposit	<u>21,400</u>	<u>34,000</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

14. DEBT SECURITIES continued

The movement on debt securities held for investment purposes is as follows:-

	<u>1996</u> £000	<u>1995</u> £000
Cost:		
At 1 January	34,000	19,000
Additions	211,650	385,500
Disposals	(224,250)	(370,500)
At 31 December	<u>21,400</u>	<u>34,000</u>

All the amounts mature within one year and are held for investment purposes. The market value of the debt securities approximates to their book value.

15. TANGIBLE FIXED ASSETS

(a) GROUP

	Freehold Land & Building £000	Computers Machinery & Furniture £000	Motor Vehicles £000	Total £000
COST				
At 1 January 1996	4,047	2,565	2	6,614
Acquisitions	-	277	-	277
Disposals	-	(1,021)	-	(1,021)
At 31 December 1996	<u>4,047</u>	<u>1,821</u>	<u>2</u>	<u>5,870</u>

DEPRECIATION

At 1 January 1996	322	1,675	1	1,998
Charge for the year	80	471	-	551
On disposals	-	(1,020)	-	(1,020)
At 31 December 1996	<u>402</u>	<u>1,126</u>	<u>1</u>	<u>1,529</u>

NET BOOK VALUE

At 31 December 1996	<u>3,645</u>	<u>695</u>	<u>1</u>	<u>4,341</u>
At 31 December 1995	<u>3,725</u>	<u>890</u>	<u>1</u>	<u>4,616</u>

(b) COMPANY

COST

At 1 January 1996	4,047	2,564	2	6,613
Acquisitions	-	277	-	277
Disposals	-	(1,020)	-	(1,020)
At 31 December 1996	<u>4,047</u>	<u>1,821</u>	<u>2</u>	<u>5,870</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

15. TANGIBLE FIXED ASSETS continued

(b) COMPANY	Freehold	Computers		
	Land & Building	Machinery & Furniture	Motor Vehicles	Total
	£000	£000	£000	£000
DEPRECIATION				
At 1 January 1996	322	1,674	1	1,997
Charge for the year	80	471	-	551
On disposals	-	(1,019)	-	(1,019)
At 31 December 1996	<u>402</u>	<u>1,126</u>	<u>1</u>	<u>1,529</u>
NET BOOK VALUE				
At 31 December 1996	<u>3,645</u>	<u>695</u>	<u>1</u>	<u>4,341</u>
At 31 December 1995	<u>3,725</u>	<u>890</u>	<u>1</u>	<u>4,616</u>

The freehold land and building is occupied by the Bank and other businesses.

C J Woodard, Chartered Surveyor, has valued the group's freehold land and building at 31 December 1993 in accordance with the statements of asset valuation practice and guidance notes of the Royal Institute of Chartered Surveyors. The value of the land and building is approximately £4.7 million.

16. DEPOSITS BY BANKS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£000	£000	£000	£000
Remaining Maturity:				
On demand	2,173	1,453	2,310	1,530
Between three and six months	-	4,000	-	4,000
Between one year and five years	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>
	<u>47,173</u>	<u>50,453</u>	<u>47,310</u>	<u>50,530</u>

17. CUSTOMER DEPOSITS

	GROUP		COMPANY	
	1996	1995	1996	1995
	£000	£000	£000	£000
Remaining Maturity:				
On demand	28,808	44,734	30,628	47,231
Within three months	152,258	144,093	152,258	144,093
Between three months and one year	148,813	108,358	148,813	108,358
Between one year and five years	63,471	61,890	63,471	61,890
Over five years	<u>1,930</u>	<u>2,206</u>	<u>1,930</u>	<u>2,206</u>
	<u>395,280</u>	<u>361,281</u>	<u>397,100</u>	<u>363,778</u>

Included in the customer accounts of the group and company are amounts for accrued interest of £10.4 million (1995 - £15.1 million).



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

18. DEEP DISCOUNT BOND

The Bank issued a fixed rate Deep Discount Bond on 23 December 1992 with a subscription price of £50 million and an issue price of £253.8 million maturing in the year 2010. The whole amount of the subscription price has been swapped into floating interest rates linked to LIBOR.

The subscription price is shown in the balance sheet net of amounts set aside in an amortisation account and the unamortised arrangement fees. The accrued interest on the bond is off set against amounts in a sterling deposit account.

19. PROVISION FOR LIABILITIES AND CHARGES

The following provisions have been made in respect of deferred tax liability:-

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£000	£000	£000	£000
At 1 January	410	200	410	200
Charged for the year	<u>240</u>	<u>210</u>	<u>240</u>	<u>210</u>
	<u>650</u>	<u>410</u>	<u>650</u>	<u>410</u>

The above provisions are after taking into consideration a certain proportion of the deferred tax asset shown below which in the opinion of the directors is justifiable based on past experience.

The potential liability to deferred taxation is as follows:-

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£000	£000	£000	£000
Capital allowances on finance leases	(554)	(477)	(554)	(477)
Other differences in recognising revenue and expense items in other periods for taxation purposes	<u>1,644</u>	<u>1,183</u>	<u>1,644</u>	<u>1,183</u>
	<u>1,090</u>	<u>706</u>	<u>1,090</u>	<u>706</u>

20. CALLED UP SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£000	£000
Authorised		
50,000,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
25,500,000 Ordinary shares of £1 each	<u>25,500</u>	<u>25,500</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

21. EQUITY SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January	30,434	30,632	30,272	30,264
Retained profit/(loss)				
for the year	<u>904</u>	<u>(198)</u>	<u>825</u>	<u>8</u>
At 31 December	<u>31,338</u>	<u>30,434</u>	<u>31,097</u>	<u>30,272</u>

22. SUBORDINATED LOAN CAPITAL

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
For the Group and the Company:		
Subordinated loan capital	<u>12,500</u>	<u>12,500</u>

The subordinated loan capital is from Confederation U.K. Holdings plc, an intermediate parent undertaking. Interest is charged on this loan at a rate linked to LIBOR. At least ten years notice of cancellation or a shorter mutually agreed period must be given by the intermediate parent undertaking. The company can repay the loan after six months notice. The claims in respect of the loan capital are subordinated to the claims of other creditors and the loan capital is not secured.

23. SUBSIDIARY UNDERTAKINGS

The company's wholly owned subsidiary undertakings incorporated in the United Kingdom and registered in England and Wales unless otherwise stated are:

	Principal Activity
Sun Banking Corporation (Jersey) Limited (Channel Islands)	Offshore Banking
Confederation Mortgage Services (UK) Limited	Provision of residential mortgages
Primett Property Management Limited	Provision of property management services



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

24. PENSION SCHEME

The company participates in the Sun Life Assurance Company of Canada UK Employee Benefit Scheme (the Scheme) which provides benefits based on final pensionable pay. The Scheme has been established under legal Trusts so that the Scheme and Company assets are kept entirely separate from each other. This is a funded non-contributory defined benefit scheme, which has not been contracted out of the State Earning Related Pension Scheme.

The Scheme is subject to an annual valuation of assets and liabilities. The valuation is conducted by the Scheme Actuary who is appointed by the Ultimate Parent Undertaking. The purpose of the valuation is to determine the level of funding and to recommend to the Ultimate Parent Undertaking's Board of Directors the contribution rate to the Scheme for the ensuing year.

The latest valuation was carried out as at 1 May 1996 using the "Projected Unit" method. The main valuation assumptions were an interest rate of 9% per annum, salary increases of 7% per annum and an escalation in the State Upper Earnings Limit of 5% per annum. The market value of the assets at the date of the valuation was £155.2 million and the level of funding (the ratio of assets to liabilities) was 117%. The assets of the Scheme consist of a deposit administration insurance policy issued by the Ultimate Parent Undertaking to the Trustees of the Scheme and units in the Confederation Life Insurance Company (UK) Limited Managed Fund.

The total pension charge for the current year was £230,223 (1995 - £220,317).

25. COMMITMENTS

Mortgage advances on offer subject to acceptance and contract at 31 December 1996 for the group amounted to £17.4 million (1995 - £11.6 million) and for the company amounted to £17.4 million (1995 - £11.6 million). These commitments can be met via existing banking arrangements.

At the balance sheet date, the annual commitments under operating leases were as follows:-

	<u>1996</u> £000	<u>1995</u> £000
Operating leases which expire		
- within one year	67	22
- between two years and five years	<u>54</u>	<u>98</u>



Sun Banking Corporation Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

26. FORWARD AND FUTURES CONTRACTS

The Group enters into derivative contracts to hedge the interest rate risk on sterling fixed rate assets and liabilities and has not held such contracts during the year for trading purposes. The acceptable counter party risk and exposure on these contracts is defined in the internal Policy Statements by reference to minimum long-term credit rating and the total exposure with any one institution. The credit exposure i.e. the risk weighted amount, in respect of a Counter Party is determined by reference to the Bank of England guidelines on the original exposure method. The Policy Statement is updated on a periodic basis but at least once a quarter to take account of any changes in the ratings.

The details of all contracts outstanding at the balance sheet date are as follows:-

For the Group and Company:	<u>1996</u> £000	<u>1995</u> £000
Interest rate contracts:		
Contract amount	403,800	315,200
Risk weighted amount	2,368	2,126
Positive mark to market	3,267	4,500
Negative mark to market	564	800

On a remaining maturity basis, the profile of the interest rate contracts are as follows:-

	1 year or less £000	Between 1 & 5 years £000	More than 5 years £000
Notional principal	10,000	270,800	123,000
Risk weighted amount	10	1,414	944

All the interest rate contracts are transacted with authorised institutions.