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## THE COMPANIES ACT 1985

### ANNUAL ACCOUNTS

for filing pursuant to sections 241 and 242  
of the Companies Act 1985

To the Registrar of Companies

Company number

2222856

Name of company

SUN BANK PLC

~~Limited~~\*

A copy of the annual accounts (~~and group accounts~~)\* of the company for the period

from 1/1/98

to

31/12/98

is attached:

Number of sheets attached

29

They comprise:

Directors' Report\*

Profit and Loss Account\* (~~modified for "Medium sized" company~~)\*

Balance Sheet(s)\* [modified for "Small" company]\*

Notes and schedules

Auditors' report

\*Delete if inappropriate

Presenter's name, address and reference.

Sun Bank plc  
Bank House  
Primett Road  
STEVENAGE  
Herts  
SG1 3UQ  
Peter Green



# **Sun Bank plc**

## **Report and Financial Statements 1998**

### **DIRECTORS**

R W S Baker\*

M A Hasley\*\*\*

G E Lefevre FCCA\*

P Lucas\*\*

K J H Malde BA, FCCA\*\*

A S Melcher (Chairman)\*\*\*

P G Newman ACIB\*

C C Reid FCCA\*\*\*

M T J Sismey-Durrant BSc, M.Phil, FCIB (Managing)\*\*

### **SECRETARY**

P H Green, Solicitor

### **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 Committee

\*\* Full time Executive Director

\*\*\* Group Non Executive Director

# **Sun Bank plc**

## **REPORT OF THE DIRECTORS**

The directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 1998.

### **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**

This has been a year of great change. Throughout the year we pursued a strategy of controlled growth with the intent to be "Best in our chosen markets".

#### **Economic Conditions**

The year started with the prospect of a fast growing UK economy giving rise to inflationary pressures which led to rising interest rates. It ended with interest rates falling sharply to avoid recession after a period of turbulence in the global financial markets. As a result of the action taken to reduce interest rates, we now expect the economy to have a soft landing, unlike the experience of the early 1990s.

#### **Competitive movements**

The late 1990s have seen the arrival of new entrants to the banking market. High profile names have launched mass media advertising campaigns to attract new customers but it remains to be seen if their introductory offerings are sustainable and how they will cope in a less benign economy. The situation has been kept under close review and the Bank has monitored its own customer acquisition against the rivals. We ended the year with both a record number of customers and business results to be proud of.

Our strategy has remained consistent with our past approach and we continue to enjoy profitable year on year growth as a result.

The changes seen in 1998 will cause the market to reassess the balance between savers and borrowers. In a low interest rate environment, lenders face increased pressure to turn their attention away from aggressive mortgage customer acquisition strategies and look more to protect the interests of their savings customers. Our more balanced approach means it is not over reliant on any single market - being able to effectively compete for retail mortgages and savings but also serving the market for commercial customers.

#### **Regulation**

Now that the Supervision of Banks has passed from the Bank of England to the Financial Services Authority, the Bank looks forward to continuing the close working relationship it has always enjoyed.

During the year, the voluntary Code of Mortgage Lending came fully into force. The Bank supports and complies with the code and would go further believing that statutory regulation will in the long run best serve the needs of consumers. The decision to tie the group sales force to the bank has seen an accelerated growth in the mortgage book. Indeed, new residential lending is up from just over £100m to £160m. The Bank has invested to accommodate this growth in volume so that customers and introducers alike enjoy some of the highest standards of service available.

# Sun Bank plc

## REVIEW OF ACTIVITIES continued

### Understanding customer needs

1998 saw a number of initiatives designed to move us closer to our customers. The rationale for these was simple: we know our customers value our reliable and responsive approach to doing business and we wanted to refresh our approach to ensure we were still leading the market. The most visible of these was a total rebranding exercise carried out on 6 April 1998, where we changed our name from Sun Banking Corporation Limited, to Sun Bank plc, a more customer friendly and better focused name. At the same time we conducted a total change of corporate identity.

The results of this exercise have been appreciated by customers, introducers and staff. As well as replacing all the bank's old range of literature for a simpler, plain English range, we also looked at service issues. Customer lifetime journeys were developed across the business and each moment of interaction between the customer and the bank was reviewed to ensure we were offering excellent service.

The relaunch earned some excellent press coverage and our name has enjoyed good press coverage since. As well as the mentions in the Best Buy tables, we are also featured in articles and editorials. An even higher press profile is an objective for 1999 to ensure we occupy our rightful place in the public's mind as a successful and dynamic bank.

We recognise that continued growth will only come through delivering superior service and innovative products.

### Continuous Development

The second element in our strategy is the development of our people and this is especially true in a direct bank which thrives on a service based culture. To ensure our people deliver the highest levels of service, we have initiated a continuous learning and development programme designed to reflect the contribution of each staff member. 1998 has seen the building blocks put in place.

Front line staff have received comprehensive telephone skills training and assessment against National Telecommunication Standards; an open learning facility has been created, enabling all employees to undertake training and development activities to meet their individual needs; and the Senior Management Team are undertaking a leadership development programme to prepare for the ambitious plans ahead.

We have recognised that we can only continue to be an ambitious, progressive and successful bank if our people are trained and developed to realise their full potential.

### Information Technology for the future

During the year, we implemented the third phase of the internally developed Integrated Banking System and migrated all deposit accounts to this system. This will now give a universal customer view, linking all aspects of the business. This will enable the bank to deliver better service, products and also provide more dynamic management information.

By completing the migration, we are now well advanced in our preparations and testing on all our major systems and do not expect any serious exposure to the Year 2000 bug. We also do not consider any associated costs arising to be significant. A full statement on our Year 2000 preparations can be found on our web-site: [www.sunbank.co.uk](http://www.sunbank.co.uk).

# Sun Bank plc

## REVIEW OF ACTIVITIES continued

### Reaping the rewards of diversification

We saw the rewards of the business diversifications made in previous years. The year saw strong growth in: commercial mortgages; residential investment mortgages; Sunbank Offshore; and also the development of our asset finance business.

The Exeter Bank acquisition brought not only an established commercial book but we were able to secure a highly experienced team. The integration process was fully completed and we are already creating leverage from this acquisition for the benefit of the whole group. The year saw the benefits of this acquisition continue as growth in our commercial mortgage book drove ahead. In a large market we are a niche player and lent £25m in new commercial business on a conservative basis during the year.

The residential property rental market is growing as a result of changes to the legislation making it an attractive investment vehicle. We have taken advantage of the growth of this sector by increasing the proportion of residential investment mortgage loans. This higher margin business now totals 6% of the residential loans under management and has provided an attractive return.

Sunbank Offshore, based in Jersey also had an impressive year with deposits growing by 25% to £55m in a highly competitive market and the number of accounts increasing by 14%. The subsidiary offers an attractive range of savings accounts, designed to assist customers in planning for their tax affairs.

Our asset finance business also grew in a very competitive market with total business in force amounting to £54m.

### Prudent risk management

Our approach to risk management is at the heart of our continued success. We have carefully monitored the business prospects of the different sectors of the economy throughout the year and amended our lending criteria accordingly.

The sharp reductions in the interest rates in the latter half of the year has improved the ability of borrowers to meet loan repayments. We have nevertheless retained our in-house arrears and litigation teams, which provide a debt counselling service to borrowers. As a result, we finished the year with non performing loans in line with industry average but lower than at the start of the year. We are well positioned to counter any economic downturn.

### Delivering growth

The sixth element of our strategy was to achieve the planned business growth. 1998 has been a record year for the Bank. We have seen strong growth across all business channels. This has been attributable to a growing desire to spread customer focus across the whole business so that it guides every decision. This means delivering innovative products to market which answer our customers' real needs and backing them up with service delivery which makes every customer contact a pleasurable experience.

Two key aims for 1998 were to increase the residential mortgage book and also to further recruit more savings customers. Both of these have been achieved.

# Sun Bank plc

## REVIEW OF ACTIVITIES continued

Sun Life of Canada's decision to tie the sales force to the Bank presented us with a golden opportunity to add additional volume to the mortgage book. New residential mortgage lending ends the year 60% up on 1997 levels, also assisted by increasing contribution from the professional intermediary market.

1998 saw initiatives such as the introduction of a pre-ISA, the launch of the Safety Deposit Account (for customers looking for a safe return at a time of the autumn stock market turmoil) and a special maturity deposit account for the maturing Sun Life of Canada policy funds. All three were successful in attracting new and retaining customers to the Bank and the Group. We have remained the market leader for our range of TESSAs and this business was also up on 1997 levels after an almost continuous presence in the Best Buy tables of national newspapers. As a result of these initiatives, deposit business ended the year at a record breaking £592m - up a satisfactory 29% on 1997.

We are disappointed at the overall regulations for Individual Savings Accounts (ISAs) and feel the Government has missed an opportunity to encourage savers. However, we are already laying plans for a range of ISA products which meet the needs of smaller savers as well as those looking to replace TESSAs and PEPs. The successful launch of our own pre-ISA product has shown us that, whilst there may be a market for those wanting the comfort of a Government standard (a CAT mark), there is also a lucrative market for those who seek potentially higher returns from more innovative products.

### **The opportunities ahead**

1999 presents its own set of challenges for all financial services companies as we strive to meet customers' expectations and more effectively compete in an over-crowded marketplace. It seems essential that those players who will prosper and offer best value to customers will be those who can be fleet of foot, offering innovative products, delivered when and how the customer chooses.

As the first direct savings bank, we have keenly embraced the benefits e-commerce can bring. The Sun Bank web-site ([www.sunbank.co.uk](http://www.sunbank.co.uk)) has been rebranded to bring it in line with our new corporate image and we are currently developing it into a fully transactional site where customers can open new accounts, move funds between accounts and also pay bills. A wider range of banking services will become available over time.

We will seek to develop further the strategic partnership, agreed in 1998, with Microsoft. The launch of Microsoft's Money '99, its updated personal finance software package, provided us with the opportunity to offer the first savings account on this system. We view the internet as a distribution channel which will help us improve our service to customers as it puts them more in control of their finances.

We will also seek to build our profile in the intermediary markets where service and innovation are valued. We will seek to work specifically with professional intermediaries with whom we can build lasting relations and who possess client banks of sophisticated investors and those seeking service based mortgages.

# Sun Bank plc

## REVIEW OF ACTIVITIES continued

1999 also sees the Bank's 10th Anniversary. We will mark this moment in our history benefiting both customers and staff. The year will also see our preparations for the Millennium come to fruition. For both events, we plan business development exercises designed to continue our growth strategy and to better focus on the needs of our customers.

### Financial Performance

Strong progress was made during the year with the financial performance of the Bank. Profit increased by 19% to £3.3 million. We have made a profit for the tenth successive year since the commencement of operations.

As mentioned earlier in the report, the year has seen aggressive competition with new market entrants and existing players increasing the cost of retail funding and reducing the price of lending. The result is that the net interest margins in the industry have been pushed down.

Against this background, we can report that the Bank's net margin has widened in 1998 from 189 basis points to 212 basis points, as a result of the diversification strategies that we have pursued. We increased the assets under management by a satisfactory 13%. Margins on our loan book have increased as a result of the benefit of the first full year's income generated from the acquisition of Exeter Bank and growth in the residential investment mortgage loans. An improvement in the long term credit rating during the year by Fitch IBCA to A+ reduced our funding cost on the wholesale markets. Total operating income for the year grew by 30% to £15.6 million.

Administration expenses increased during the year as we invested in the infrastructure - technology, people and potential areas of corporate development to deliver measured growth. The significant opportunity for mortgage growth required us to increase our staff establishment to 160 to support business development. Expense management remains a key factor in running our business at a time of planned growth and we are confident that the expense ratios will improve over time as we see the benefits of the investment made.

During the year, an exceptional charge of £3.1 million was incurred on the termination of the Deep Discount Bond which was issued in 1992 providing long term source of funds at sub Libor cost. Changes to legislation relating to these types of funding instruments removed the benefit of keeping the Bond in place and the cost of termination was written off in the year.

After a low charge in 1997 due to a £0.4 million write back arising from commercial mortgage loans, provisions for bad and doubtful debts increased during the year to normal levels. There was an increase in general provisions arising from asset growth amounting to £0.24 million. Specific provisions were minimal for the residential and commercial mortgage loans and primarily arose as a result of asset finance.

### Conclusion

As we approach the new millennium, our overall objective is to build a successful business for the long term that will endure the inevitable cycles of the UK economy. It is our belief that we remain well established and positioned to deliver a growing, diversified and profitable business.

# **Sun Bank plc**

## **DIVIDENDS**

No dividend was paid during the year (1997 - £2.5 million) and the directors do not recommend payment of a final dividend.

## **CAPITAL**

The Bank's capital ratios remain well in excess of the regulatory and the internationally agreed minimum requirements.

Capital and reserves at the end of 1998 increased to £52.4 million and this was further enhanced by £5 million on 29 January 1999 to provide additional resources for growth.

## **DIRECTORS AND DIRECTORS' INTERESTS**

All the directors, in accordance with the company's Articles of Association, 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. Mr M E Bates resigned as Director and Chairman on 31 August 1998. Mr A S Melcher was appointed as Director and Chairman on 27 January 1999. 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, 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 has a remuneration committee that is chaired by an external non-executive director. 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.



# Sun Bank plc

## 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 as at the end of the financial year 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.

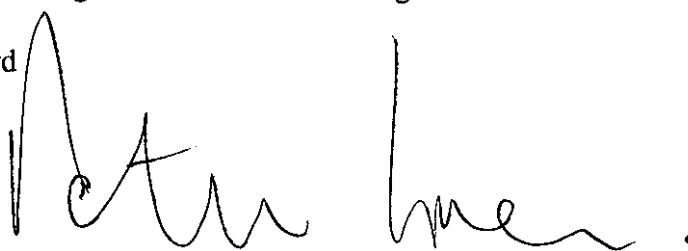
## SUPPLIER PAYMENT POLICY AND PRACTICE

It is the Bank's policy that payment to suppliers are made in accordance with those terms and conditions agreed between the Bank and its suppliers, provided that all trading terms and conditions have been complied with. As at the year-end, the Bank had an average of 30 days' purchases outstanding.

## 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

A handwritten signature in black ink, appearing to read 'P H Green', written over a horizontal line.

**P H GREEN**  
Secretary  
23 March 1999

# Sun Bank plc

## REPORT OF THE AUDITORS TO THE MEMBERS OF SUN BANK PLC

We have audited the financial statements on pages 10 to 29 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 8 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.

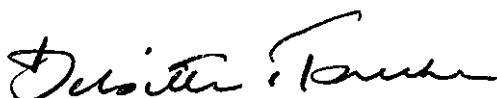
### Basis of opinion

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 1998 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

23 March 1999

# Sun Bank plc

## Consolidated Profit and Loss Account for the Year Ended 31 December 1998

	Notes	1998 £000	1997 £000
Interest receivable:			
Interest receivable and similar income	5	95,599	80,833
Other interest receivable and similar income arising from debt securities		<u>647</u>	<u>275</u>
		96,246	81,108
Interest payable	6	(82,090)	(70,419)
<b>Net interest income</b>		<b>14,156</b>	<b>10,689</b>
Fees and commissions receivable		3,138	2,688
Fees and commissions payable		<u>(1,652)</u>	<u>(1,332)</u>
<b>Net fees and commissions</b>		<b><u>1,486</u></b>	<b><u>1,356</u></b>
<b>Total operating income</b>		<b>15,642</b>	<b>12,045</b>
Administrative expenses	7	(7,933)	(5,793)
Exceptional items	8	(3,100)	(1,055)
Depreciation and amortisation	16	<u>(477)</u>	<u>(537)</u>
<b>Total operating expenses</b>		<b><u>(11,510)</u></b>	<b><u>(7,385)</u></b>
<b>Operating profit before provisions</b>		<b>4,132</b>	<b>4,660</b>
Provisions for bad and doubtful debts	13	<u>(918)</u>	<u>(12)</u>
<b>Operating profit on ordinary activities before taxation</b>		<b>3,214</b>	<b>4,648</b>
Tax credit/(charge) on profit on ordinary activities	9	<u>94</u>	<u>(1,873)</u>
<b>Profit for the financial year</b>	10	<b>3,308</b>	<b>2,775</b>
Dividends, paid and proposed	11	<u>-</u>	<u>(2,500)</u>
<b>Retained profit for the year</b>	23	<b>3,308</b>	<b>275</b>
<b>Retained profit brought forward</b>		<b><u>6,074</u></b>	<b><u>5,799</u></b>
<b>Retained profit carried forward</b>		<b><u>9,382</u></b>	<b><u>6,074</u></b>

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 29 form an integral part of these accounts

# Sun Bank plc

## Consolidated Balance Sheet as at 31 December 1998

Assets	Notes	1998 £000	1997 £000
Loans and advances to banks	12	23,695	26,357
Loans and advances to customers	13	657,354	554,332
Loans and advances to customers subject to securitisation arrangements	14	86,349	103,116
Less: non-returnable finance		(86,349)	(103,116)
Debt securities	15	15,000	7,000
Amounts due from fellow subsidiaries		247	-
Intangible fixed assets - negative goodwill	16	(1,206)	(1,426)
Tangible fixed assets	17	4,206	4,187
Other assets		4,570	2,998
Prepayments and accrued income		13,531	12,288
Unamortised fees and commissions paid		2,287	2,279
<b>Total Assets</b>		<b><u>719,684</u></b>	<b><u>608,015</u></b>
<b>Liabilities</b>			
Deposits by banks	18	58,289	61,869
Customer deposits	19	592,309	459,611
Deep discount bond	20	-	28,209
Other liabilities	21	16,346	8,894
Provision for liabilities and charges	22	319	319
		<u>667,263</u>	<u>558,902</u>
Called up share capital	23	28,000	28,000
Other reserves		39	39
Revenue reserves		9,382	6,074
Equity shareholders' funds	24	<u>37,421</u>	<u>34,113</u>
Subordinated loan capital	25	15,000	15,000
		<u>52,421</u>	<u>49,113</u>
<b>Total Liabilities and Shareholders' Funds</b>		<b><u>719,684</u></b>	<b><u>608,015</u></b>
<b>Memorandum items</b>			
Other commitments	28	<u>47,788</u>	<u>30,444</u>

Approved by the Board of Directors on 23 March 1998

Director

M T J Sismey-Durrant

23 March 1999

Director

K J Malde

23 March 1999

The notes on pages 13 to 29 form an integral part of these accounts

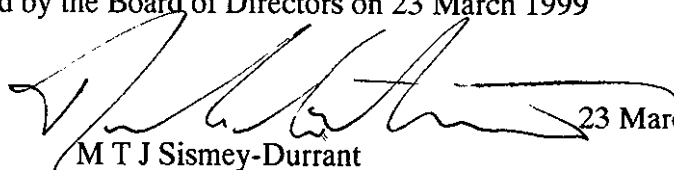
# Sun Bank plc

## Balance Sheet as at 31 December 1998

	Notes	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
<b>Assets</b>			
Loans and advances to banks	12	23,605	26,257
Loans and advances to customers	13	601,190	483,988
Loans and advances to customers subject to securitisation arrangements	14	86,349	103,116
Less: non-returnable finance		(86,349)	(103,116)
Debt securities	15	15,000	7,000
Investment in subsidiary undertakings	26	15,246	15,246
Amounts due from group undertakings		38,594	54,857
Amounts due from fellow subsidiaries		247	
Tangible fixed assets	17	4,205	4,185
Other assets		7,233	2,982
Prepayments and accrued income		13,232	12,036
Unamortised fees and commissions paid		2,282	2,264
<b>Total Assets</b>		<u><b>720,834</b></u>	<u><b>608,815</b></u>
<b>Liabilities</b>			
Deposits by banks	18	56,264	62,679
Customer deposits	19	595,145	461,288
Deep discount bond	20	-	28,209
Other liabilities	21	18,773	8,807
Provision for liabilities and charges	22	319	319
		<u>670,501</u>	<u>561,302</u>
Called up share Capital	23	28,000	28,000
Revenue reserves		7,333	4,513
Equity shareholders' funds	24	<u>35,333</u>	<u>32,513</u>
Subordinated loan capital	25	15,000	15,000
		<u>50,333</u>	<u>47,513</u>
<b>Total Liabilities and Shareholders' Funds</b>		<u><b>720,834</b></u>	<u><b>608,815</b></u>
<b>Memorandum items</b>			
Other commitments	28	<u>47,788</u>	<u>30,444</u>

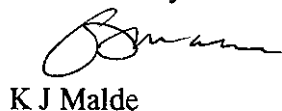
Approved by the Board of Directors on 23 March 1999

Director

  
M T J Sismey-Durrant

23 March 1999

Director

  
K J Malde

23 March 1999

The notes on pages 13 to 29 form an integral part of these accounts

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 1. PRINCIPAL ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified by debt securities which are held for investment purposes and are shown at their maturity value. 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, individual assessments are made of all loans and advances which are three months or more in arrears. In addition, further assessments are made on commercial mortgage advances that are less than three months in arrears but are subject to untimely payments and where the value of the security may be impaired.

A specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for an impaired mortgage advance, 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.

#### FEEs AND COMMISSIONS PAID

Introductory fees on the acquisition of residential mortgages are amortised evenly over five years and, where a residential mortgage is redeemed, the unamortised cost is written off in the year of redemption. Introductory fees on the acquisition of commercial and residential investment mortgages are written off in the year. 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. 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.

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 Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 1. PRINCIPAL ACCOUNTING POLICIES *continued*

#### MORTGAGE DISCOUNTS AND CASHBACKS

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

#### NEGATIVE GOODWILL

In accordance with Financial Reporting Standard No. 10, the negative goodwill arising from the acquisition of Exeter Trust Limited (formally Exeter Bank Limited) has been determined by taking the excess of the fair value of net tangible assets over the fair value of purchase consideration at the date of acquisition of subsidiary undertakings. The amount is shown as a negative intangible asset and amortised to the profit and loss account over seven years, which is a fair representation of the estimated useful economic life of the asset.

#### DEPRECIATION

Depreciation is provided on a straight line basis at a rate of 33% per annum on computers, 20% per annum on machinery and furniture, and on a 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.

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 1. PRINCIPAL ACCOUNTING POLICIES *continued*

#### PENSIONS

The company participates in a defined benefit group scheme and a defined money purchase plan operated by the ultimate parent undertaking. Contributions on the defined benefit group scheme 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. Contributions on the defined money purchase plan are charged to the profit and loss account on a cash paid basis.

#### 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.

#### FINANCIAL INSTRUMENTS

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.

#### RELATED PARTY TRANSACTIONS

The company is exempt from disclosure of details of transactions with other group undertakings under FRS 8 paragraph 3(c), as it is a wholly owned subsidiary of a UK parent company.

### 2. PARENT UNDERTAKING

The immediate parent undertaking and controlling party is Confederation Financial Services (UK) Limited, incorporated in Great Britain and 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 ultimate 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.



# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 3. BASIS OF CONSOLIDATION

The group financial statements consolidate the financial results of Sun Bank plc and all its subsidiary undertakings made up to 31 December 1998.

No profit and loss account is presented for Sun Bank plc 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.

### 5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Aggregate rentals receivable in relation to lease financing and instalment finance were £30.5 million (1997 - £28.6 million) and the interest receivable thereon is £5.8 million (1997 - £5.5 million).

### 6. INTEREST PAYABLE

Included in interest payable is an amount of £1,105,518 (1997 - £948,840) representing the interest charge on the subordinated loan capital.

### 7. ADMINISTRATIVE EXPENSES

	<u>1998</u> £000	<u>1997</u> £000
Administrative expenses include:-		
Staff costs		
Wages and salaries	3,556	3,015
Social security costs	313	212
Other pension costs	530	353
Other staff costs	<u>518</u>	<u>600</u>
Total staff costs	4,917	4,180
Auditors' remuneration		
Audit services	62	66
Non audit services	27	36
Operating lease rentals	97	79

	<u>Number</u>	<u>Number</u>
Monthly average number of persons employed during the year	<u>143</u>	<u>121</u>

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

	<u>£000</u>	<u>£000</u>
Fees and emoluments	398	376
Pension contributions to Final Salary Plan	<u>46</u>	<u>42</u>
	<u>444</u>	<u>418</u>

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 7. ADMINISTRATIVE EXPENSES continued

Under the pension scheme, the Final Salary Plan is a defined benefit scheme and the accrued benefit as at 31 December 1998 for the highest paid director was £18,031 (1997 - £15,617). The total number of directors who accrue benefits under the Final Salary Plan are 3 (1997 - 3).

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

	<u>£000</u>	<u>£000</u>
Highest paid director	<u>148</u>	<u>133</u>

### 8. EXCEPTIONAL ITEMS

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Expenses in respect of:-		
Termination of the Deep Discount Bond	3,100	-
Re-organisation, restructuring and integration costs in respect of the Exeter Bank Limited acquisition	<u>-</u> <u>3,100</u>	<u>1,055</u> <u>1,055</u>

### 9. TAX (CREDIT)/CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
The Bank and its subsidiary undertakings:		
United Kingdom corporation tax charge at 31% (1997 - 31.5%)	-	1,638
Foreign tax	25	33
Tax credit on franked income	-	173
(Release)/charge of deferred tax	-	(331)
Adjustment to prior year taxation	<u>(119)</u>	<u>360</u>
(Credit)/charge for the year	<u>(94)</u>	<u>1,873</u>

The corporation tax charge on profit on ordinary activities has been relieved in full by the surrender of losses by another group company for nil consideration.

### 10. PROFIT FOR THE FINANCIAL YEAR

The profit attributable to ordinary shareholders dealt with in the financial statements of the company was £2,676,843 (1997 profit - £1,415,779).

### 11. DIVIDENDS, PAID AND PROPOSED

No dividend was paid during the year (1997 - 8.93 pence per share) on the ordinary shares.

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 12. LOANS AND ADVANCES TO BANKS

	GROUP		COMPANY	
	1998 £000	1997 £000	1998 £000	1997 £000
Remaining Maturity:				
On demand	-	101	-	1
Within three months	23,695	25,214	23,605	25,214
Over five years	-	1,042	-	1,042
	<u>23,695</u>	<u>26,357</u>	<u>23,605</u>	<u>26,257</u>

The Bank is required to maintain balances with the Bank of England based on certain regulatory criteria. At 31 December 1998 this amounted to £nil (1997 - £1,042,000).

### 13. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		COMPANY	
	1998 £000	1997 £000	1998 £000	1997 £000
Residential mortgage advances	530,634	437,974	519,542	423,420
Commercial mortgage advances	69,534	55,189	26,279	4,307
Instalment finance	35,029	32,222	33,370	31,815
Lease financing	18,474	21,755	18,316	18,235
Other advances	3,683	7,192	3,683	6,211
	<u>657,354</u>	<u>554,332</u>	<u>601,190</u>	<u>483,988</u>

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

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

	GROUP		COMPANY	
	1998 £000	1997 £000	1998 £000	1997 £000
Remaining Maturity:				
On demand	4,308	3,144	2,000	2,366
Within three months	6,880	12,922	6,392	12,833
Between three months and one year	19,878	18,578	17,417	18,076
Between one year and five years	42,283	38,334	40,892	37,068
Over five years	584,005	481,354	534,489	413,645
	<u>657,354</u>	<u>554,332</u>	<u>601,190</u>	<u>483,988</u>

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 13. LOANS AND ADVANCES TO CUSTOMERS continued

	GROUP		COMPANY	
	1998	1997	1998	1997
	£000	£000	£000	£000
Loans and advances to customers are stated net of the following provisions:-				
<b>Specific Provisions</b>				
Balance at 1 January	4,078	1,967	1,564	1,967
Provision arising on acquisition of subsidiary undertaking	-	1,558	-	-
Interest suspended	146	883	-	-
Applied in writing off advances net of recoveries	(1,583)	(1,030)	(602)	(611)
Transfer from general provision	-	779	-	-
Charge (release) for the year	680	(79)	675	208
Balance at 31 December	<u>3,321</u>	<u>4,078</u>	<u>1,637</u>	<u>1,564</u>
<b>General Provision</b>				
Balance at 1 January	1,507	433	696	426
Provision arising on acquisition of subsidiary undertaking	-	1,762	-	-
Transfer to specific provision	-	(779)	-	-
Charge for the year	238	91	496	270
Balance at 31 December	<u>1,745</u>	<u>1,507</u>	<u>1,192</u>	<u>696</u>

### 14. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION ARRANGEMENTS

Sun Bank plc 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 1998 was £86.3 million (1997 - £103.1 million). The assets sold comprised loans which were secured by a 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 1998 £000	Balance outstanding 31 December 1997 £000
Securitised domestic loans				
- First Mortgages	Securitisation	<u>174,991</u>	<u>86,349</u>	<u>103,116</u>

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 14. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION ARRANGEMENTS continued

#### (a) Description of assets sold

The assets sold comprise receivables which were originated by Sun Bank plc 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 Bank plc 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 Bank plc 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 Bank plc generally has no obligation to repurchase loans other than in relation to any breach of warranty at the time of sale.

#### (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 Bank plc 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.

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 14. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION ARRANGEMENTS continued

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

Other than as disclosed on the balance sheet, Sun Bank plc 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 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 Bank plc. 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 Bank plc 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.

Under the provisions of FRS5 the results of MHL, as a quasi-subsiidiary, have been included in Sun Bank's group accounts. Detailed below are the summarised unaudited consolidated financial statements of MHL for the year to 31 December 1998.

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Balance sheet:		
Loans and advances to customers	86,349	103,116
Other assets	6,556	6,961
Creditors	(92,905)	(110,077)
Total net assets	<u>-</u>	<u>-</u>

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 14. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION ARRANGEMENTS continued

#### (j) Securitisation vehicles continued

	<u>1998</u> £000	<u>1997</u> £000
Profit and Loss Account:		
Total income	16,898	18,445
Total expenses	(16,898)	(18,445)
Profit/(Loss) after taxation	<u>-</u>	<u>-</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.

Amounts receivable in respect of a gross distribution from the securitised vehicle of £578,057 (1997 - £866,524), are included under fees and commissions receivable on page 10.

	<u>1998</u> £000	<u>1997</u> £000
Cash flow statement:		
Net cash outflow before financing and decrease in cash	<u>(44)</u>	<u>(950)</u>

### 15. DEBT SECURITIES

	<u>1998</u> £000	<u>1997</u> £000
<b>For the Group and Company</b>		
Issued by other issuers:		
Bank Certificates of Deposit	<u>15,000</u>	<u>7,000</u>

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

	<u>1998</u> £000	<u>1997</u> £000
Cost:		
At 1 January	7,000	21,400
Additions	90,800	67,000
Disposals	(82,800)	(81,400)
At 31 December	<u>15,000</u>	<u>7,000</u>

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

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 16. INTANGIBLE FIXED ASSETS - NEGATIVE GOODWILL

	<u>1998</u> £000	<u>1997</u> £000
Movement on negative goodwill		
Negative goodwill brought forward	1,426	1,536
Amortised to the profit and loss account	(220)	(110)
Total negative goodwill shown as intangible asset	<u>1,206</u>	<u>1,426</u>

### 17. TANGIBLE FIXED ASSETS

#### (a) GROUP

	Freehold Land & Building £000	Computers Machinery & Furniture £000	Motor Vehicles £000	Total £000
<b>COST</b>				
At 1 January 1998	4,047	2,141	36	6,224
Acquisitions	-	496	-	496
At 31 December 1998	4,047	2,637	36	6,720
<b>DEPRECIATION</b>				
At 1 January 1998	482	1,552	3	2,037
Charge for the year	80	390	7	477
At 31 December 1998	562	1,942	10	2,514
<b>NET BOOK VALUE</b>				
At 31 December 1998	3,485	695	26	4,206
At 31 December 1997	<u>3,565</u>	<u>589</u>	<u>33</u>	<u>4,187</u>

#### (b) COMPANY

#### COST

At 1 January 1998	4,047	2,139	36	6,222
Acquisitions	-	496	-	496
At 31 December 1998	4,047	2,635	36	6,718

#### DEPRECIATION

At 1 January 1998	482	1,552	3	2,037
Charge for the year	80	389	7	476
At 31 December 1998	562	1,941	10	2,513

#### NET BOOK VALUE

At 31 December 1998	3,485	694	26	4,205
At 31 December 1997	<u>3,565</u>	<u>587</u>	<u>33</u>	<u>4,185</u>



# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 18. DEPOSITS BY BANKS

	GROUP		COMPANY	
	1998	1997	1998	1997
	£000	£000	£000	£000
Remaining Maturity:				
On demand	2,026	1,869	-	2,679
Between three months and one year	26,500	-	26,500	-
Between one and five years	29,763	60,000	29,764	60,000
	<u>58,289</u>	<u>61,869</u>	<u>56,264</u>	<u>62,679</u>

As at 31 December 1998, the Bank had undrawn committed lines of credit available from banks amounting to £73 million with remaining maturities of between one and five years (1997 - £38 million with remaining maturities of between one and five years).

### 19. CUSTOMER DEPOSITS

	GROUP		COMPANY	
	1998	1997	1998	1997
	£000	Restated £000	£000	Restated £000
Customer Accounts				
Remaining Maturity:				
On demand	2	1,519	2	3,196
Within three months	250,649	173,217	253,485	173,217
Between three months and one year	264,132	197,734	264,132	197,734
Between one year and five years	56,057	85,391	56,057	85,391
Over five years	1,750	1,750	1,750	1,750
	<u>572,590</u>	<u>459,611</u>	<u>575,426</u>	<u>461,288</u>
Amounts due to fellow subsidiaries				
Remaining Maturity:				
On demand	-	-	-	-
Within three months	14,719	-	14,719	-
Between three months and one year	5,000	-	5,000	-
Between one year and five years	-	-	-	-
Over five years	-	-	-	-
	<u>19,719</u>	<u>-</u>	<u>19,719</u>	<u>-</u>
TOTAL CUSTOMER DEPOSITS	<u>592,309</u>	<u>459,611</u>	<u>595,145</u>	<u>461,288</u>

Included in the customer accounts of the group and company are amounts for accrued interest of £14.4 million (1997 - £11.5 million).

### 20. DEEP DISCOUNT BOND

The Deep Discount Bond, which was issued by the Bank on 23 December 1992 was terminated on 4 January 1999. The costs associated with the termination are shown as exceptional items in note 8.

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 21. OTHER LIABILITIES

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
<b>Group</b>		
Tax and social security	-	2,380
Other liabilities	<u>16,346</u>	<u>6,514</u>
	<u>16,346</u>	<u>8,894</u>
<b>Company</b>		
Tax and social security	-	6,935
Other liabilities	<u>18,773</u>	<u>1,872</u>
	<u>18,773</u>	<u>8,807</u>

### 22. PROVISION FOR LIABILITIES AND CHARGES

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

#### Group

	<b>Provided</b>		<b>Unprovided</b>	
	<u>This</u> <u>Period</u> <u>£000</u>	<u>Last</u> <u>Period</u> <u>£000</u>	<u>This</u> <u>Period</u> <u>£000</u>	<u>Last</u> <u>Period</u> <u>£000</u>
Capital allowances in excess of depreciation	-	-	(258)	(215)
Other	<u>319</u>	<u>319</u>	<u>(4,738)</u>	<u>(582)</u>
	<u>319</u>	<u>319</u>	<u>(4,996)</u>	<u>(797)</u>

#### Company

	<b>Provided</b>		<b>Unprovided</b>	
	<u>This</u> <u>Period</u> <u>£000</u>	<u>Last</u> <u>Period</u> <u>£000</u>	<u>This</u> <u>Period</u> <u>£000</u>	<u>Last</u> <u>Period</u> <u>£000</u>
Capital allowances in excess of depreciation	-	-	(258)	(178)
Other	<u>319</u>	<u>319</u>	<u>(3,820)</u>	<u>(101)</u>
	<u>319</u>	<u>319</u>	<u>(4,098)</u>	<u>(279)</u>

### 23. CALLED UP SHARE CAPITAL

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
<b>Authorised:</b>		
50,000,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
<b>Allotted, called up and fully paid:</b>		
28,000,000 Ordinary shares of £1 each	<u>28,000</u>	<u>28,000</u>

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 24. EQUITY SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	1998	1997	1998	1997
	£000	£000	£000	£000
At 1 January	34,113	31,338	32,513	31,097
Increase in share capital	-	2,500	-	2,500
Retained profit/(loss)				
for the year	3,308	275	2,820	(1,084)
At 31 December	<u>37,421</u>	<u>34,113</u>	<u>35,333</u>	<u>32,513</u>

### 25. SUBORDINATED LOAN CAPITAL

1998	1997
£000	£000

#### For the Group and the Company:

Subordinated loan capital	<u>15,000</u>	<u>15,000</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.

### 26. SUBSIDIARY UNDERTAKINGS

The company's wholly owned subsidiary undertakings with 100% voting rights incorporated in Great Britain and registered in England and Wales unless otherwise stated are:

	Principal Activity
Sun Bank Offshore Limited (formerly Sun Banking Corporation (Jersey) Limited) (Channel Islands)	Offshore Banking
Exeter Trust Limited	Provision of commercial mortgages
Confederation Mortgage Services (UK) Limited	Provision of residential mortgages
Primett Property Management Limited	Provision of property management services
Sunexeter Limited* (formerly Exeter Trust Limited)	Non-trading
Exeter Trust Insurance Services Limited*	Non-trading
Exeter Trust Financial Services Limited**	Provision of asset backed lending

\*wholly owned subsidiary undertakings of Exeter Trust Limited

\*\* wholly owned subsidiary undertakings of Exeter Trust Insurance Services Limited

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### 27. PENSION SCHEME

The company participates in the Sun Life Assurance Company of Canada UK 1998 Employee Benefit Scheme (the Scheme). The Scheme has been established under legal trust so that the Scheme and company assets are kept entirely separate from each other.

Pension arrangements for employees are provided under the Scheme, which consists of four plans as described below:

#### **Final Salary Plan**

This is a funded non-contributory defined benefit scheme open to employees who do not opt to join the Money Purchase Plan (see below) and is contracted out of the State Earnings Related Pension Scheme.

The plan is subject to an annual valuation of assets and liabilities. The valuation is conducted by the plan actuary who is appointed by the scheme trustees. The purpose of the valuation is to determine the level of funding and to recommend to the trustees the contribution rate applicable for the ensuing year.

The latest valuation was carried out as at 1 January 1997 using the "Projected Unit" method. The main valuation assumptions were an interest rate of 8% per annum, salary increases of 6% per annum and an escalation in the State Upper Earnings Limit of 4% per annum. The assessed value of the assets at the date of the valuation was £152.7 million and the level of funding (the ratio of assets to liabilities) was 104%. The assets of the plan consisted of a deposit administration insurance policy issued by the ultimate parent undertaking to the trustees of the plan and the units in the Confederation Life Insurance Company (UK) Limited Managed Fund until 1 July 1998 when the monies were transferred into a segregated fund managed by Sun Life of Canada Asset Management.

The amount of pension cost charged to the Group by the ultimate parent undertaking in respect of this plan in the current year was £385,456 (1997 - £296,711).

#### **Money Purchase Plan**

This is a defined contribution scheme open to employees who do not elect to join the Final Salary Plan.

The plan is not contracted out of the State Earnings Related Pension Scheme.

Employer's contributions are calculated monthly as 6% of each employee's basic pay.

The amount of pension cost charged to the Group by the ultimate parent undertaking in respect of this plan in the current year was £20,321 (1997 - £11,417).

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

### Contracted-out Plan

This is a contracted-out money purchase scheme open to those employees who elect to contract out of the State Earnings Related Pension Scheme on a money purchase basis. Contributions to the plan consist solely of the National Insurance rebates associated with contracting-out.

### Voluntary Contribution Plan

This is a defined contribution scheme open to those employees who elect to pay additional contributions themselves with the purpose of building up additional pension rights. Contributions to the plan are paid solely by employees.

## 28. COMMITMENTS

Mortgage advances on offer subject to acceptance and contract at 31 December 1998 for the group amounted to £47.8 million (1997 - £30.4 million) and for the company amounted to £47.8 million (1997 - £30.4 million). These commitments can be met via existing banking arrangements.

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

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Operating leases which expire		
- within one year	139	51
- between two years and five years	<u>121</u>	<u>62</u>
	<u>260</u>	<u>113</u>

## 29. FINANCIAL INSTRUMENTS

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 counterparty risk and exposure on these contracts are 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 counterparty is determined by reference to the Financial Services Authority 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.

# Sun Bank plc

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

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

For the Group and Company:	1998 £000	1997 £000
Interest rate contracts:		
Contract amount	488,100	464,100
Positive mark to market	7,450	4,176
Negative mark to market	3,601	506

The interest rate repricing table as at 31 December 1998 was as follows:-

	TOTAL £000s	Not more than 3 months £000s	More than 3 months but not more than 6 months £000s	More than 6 months but not more than 1 year £000s	More than 1 year but not more than 5 years £000s	More than 5 years £000s	Non- interest bearing £000s
<b>ASSETS</b>							
Loans and Advances to Banks	23,695	23,695	-	-	-	-	-
Loan and Advances to Customers	657,354	356,519	6,221	59,103	216,373	19,138	-
Debt securities	15,000	15,000	-	-	-	-	-
Amounts due to fellow subsidiaries	247	247	-	-	-	-	-
Freehold Land & Buildings	3,486	-	-	-	-	-	3,486
Negative Goodwill	(1,206)	-	-	-	-	-	(1,206)
Other Assets	21,108	-	-	-	-	-	21,108
<b>TOTAL ASSETS</b>	<b>719,684</b>	<b>395,461</b>	<b>6,221</b>	<b>59,103</b>	<b>216,373</b>	<b>19,138</b>	<b>23,388</b>
<b>LIABILITIES</b>							
Deposits by Banks	58,289	53,525	-	-	4,764	-	-
Customer Accounts	592,309	287,446	22,103	47,388	220,945	-	14,427
Other liabilities	16,665	-	-	-	-	-	16,665
Subordinated loan capital	15,000	15,000	-	-	-	-	-
Shareholder's Funds	37,421	-	-	-	-	-	37,421
<b>TOTAL LIABILITIES</b>	<b>719,684</b>	<b>355,971</b>	<b>22,103</b>	<b>47,388</b>	<b>225,709</b>	<b>-</b>	<b>68,513</b>
<b>OFF BALANCE SHEET ITEMS</b>	<b>-</b>	<b>(53,434)</b>	<b>81,000</b>	<b>(23,842)</b>	<b>10,531</b>	<b>(14,255)</b>	<b>-</b>
<b>INTEREST RATE SENSITIVITY GAP</b>	<b>(13,944)</b>	<b>65,118</b>	<b>(12,127)</b>	<b>1,195</b>	<b>4,883</b>	<b>(45,125)</b>	<b>-</b>
<b>CUMULATIVE GAP</b>	<b>(13,944)</b>	<b>51,174</b>	<b>39,047</b>	<b>40,242</b>	<b>45,125</b>	<b>-</b>	<b>-</b>

### 30. POST BALANCE SHEET EVENTS

On 29 January 1999, 3,000,000 Ordinary Shares of £1 were issued at par for cash to the immediate parent undertaking. In addition the subordinated loan capital was increased by £2,000,000 on the same terms and conditions as shown in Note 24.