



# Sun Banking Corporation Limited

## Report and Financial Statements

### DIRECTORS

R W S Baker (Chairman)  
M E Bates  
M A Hasley  
K M Hilton\*  
G E Lefevre FCCA\*  
K J H Malde BA, FCCA  
M T J Sismey-Durrant BSc, M.Phil, ACIB  
C J Watts ACIB, FLMI (Managing Director)  
G L Willman MA, FIA

### SECRETARY

K J H Malde BA, FCCA

### REGISTERED OFFICE

Bank House  
Primett Road  
Stevenage  
Hertfordshire  
SG1 3UQ

### REGISTERED NUMBER

2222856 England

### AUDITORS

Touche Ross & Co.  
Chartered Accountants  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

\*Non Executive Director and Member of the Audit Committee







## Sun Banking Corporation Limited

### REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the accounts for the year ended 31 December 1994.

### CHANGE OF NAME

The company changed its name from Confederation Bank Limited to Sun Banking Corporation Limited on 1 December 1994. This was to reflect the change in ownership of the group to Sun Life Assurance Company of Canada on 30 September 1994.

### ACTIVITY

The principle 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

#### A Momentous Year

**It is no exaggeration to say that 1994 was simultaneously the most strenuous and exhilarating since our formation.** In view of the shadow that was cast by the problems with our former parent in Canada, it is a tribute to the Bank and its underlying strength and vitality that it has continued to thrive in a hugely complex and competitive market place.

The first half of 1994 progressed extremely well. We were continuing to enjoy unusually good fortune through the tail-end of the recession. In our last annual report, it was easy to state that Confederation Bank Limited had emerged from the difficulties of the mortgage market in the early 90s with "flying colours" and Providence kept smiling well into 1994. In the first quarter for instance, we added three loan portfolios to our existing book - one of them a fully performing mortgage portfolio of almost £50m.

Because of its quality, this portfolio in particular was won in the face of stiff competition and it is pleasing to report that we were awarded it, not because we were the highest bidders. Rather, the sellers chose us because they were so impressed with the fitness and excellence of the package the Bank was able to offer borrowers - products, administration, service and staff, all of the highest quality. Hence we were able to complete this rewarding transaction in the highly aggressive mortgage acquisition market, with alacrity.

We had also begun a new marketing initiative aimed to maximise Best Buy media coverage for the Bank's attractive deposit account products - acknowledged as such by the influential advisers who write for the financial papers and compile the relevant tables. This successful drive enabled us to enhance significantly the level of direct business and encourage the activities of our existing introducers - all highly beneficial. During May and before the Confederation problems, the Bank's deposit levels reached an all-time high of £330 million. It was about this time that vague rumours and uncertainties regarding the Confederation Life Group in Canada began to be heard.





## Sun Banking Corporation Limited

Despite the concerns about the Parent, Confederation U.K. Holdings plc was, in fact, very strong. Consequently, when the rumours of difficulties proved to be correct, it was the financial strength of the UK business, supported by the devotion and hard work of the management and staff, which resulted in "Business as Usual", prior to and following the collapse of Confederation Life in Canada.

An agreement for the sale of Confederation U.K. Holdings plc to Sun Life of Canada was signed on 16 August 1994. The takeover was completed on 30 September 1994.

Throughout the months of anxiety and uncertainty, when our future was in doubt, the health and financial fitness of the Bank was in no way diminished. We were confident in our survival and inner strength, and the challenge was to share this confidence with our customers and lending Banks. In the event, the lifeblood of our business, our deposit base, was retained and our lending Banks provided much appreciated support. We were able to retain our important IBCA A1 short term credit rating throughout (reconfirmed in November) and, as it turned out, suffered no significant withdrawals.

The credit for this outstanding performance must go to all of our members of staff, whose commitment, dedication, energy and team spirit kept us going so magnificently. There was one particular weekend in early August, following the Confederation Life liquidation but prior to the announcement of our purchase by Sun Life of Canada, when teams were required to man our phone lines all weekend in order to reassure worried investors. By their professionalism and confidence the people who undertook that operation ensured our business remained intact. Our sincere thanks to all who were involved.

### Into the Sun

From the ashes of the old Confederation Bank Limited grew Sun Banking Corporation Limited. We recognised at once the importance of demonstrating an immediate commitment to our new owners. So much of our business is about confidence, especially from depositors and it seemed natural to change the Bank's name to reflect the financial fitness, strength and repute of Sun Life of Canada. Not everybody can boast a parent with a Standard and Poor's AAA claims paying rating! We were delighted to become Sun Banking Corporation Limited on 1 December 1994. Richard Baker, Senior Vice President and General Manager of Sun Life of Canada, was appointed Chairman of the Bank. Maurice Bates, Vice President and Assistant General Manager, and Michael Hasley, Senior Vice President, Finance, also joined the Board.

A bank within Sun Life of Canada will benefit the whole business. There exists an important synergy between the various business areas, and the key to success is to find the best way to develop that synergy to everyone's benefit. And to do it fast, because the competition is not stopping to wait for us. Before the end of 1994 we worked hard to put the foundations in place that will enable us to build for a successful future into 1995 and beyond.





## Sun Banking Corporation Limited

At the beginning of November, and given the nature of the businesses involved, it was decided to merge Sun Life of Canada Home Loans Limited with the Bank, so that the Bank needed to acquire their £167m mortgage portfolio. The Bank also had to rearrange some elements of its own financing which meant we needed to raise £275m by the year end. This was achieved firstly via a £175m securitisation of existing mortgage assets - an off balance sheet funding structure requiring the use of a special purpose vehicle, Maple Mortgage Securities, and the issue of a Eurobond. £135m of the relevant assets came from the Bank and £40m from a sister company. Secondly, we successfully arranged and placed a £100m 5 year loan syndication - completed in the week between Christmas and New Year.

Changing our name and rearranging our finances required a lot of work to be completed in a short space of time. Project teams were created, able to draw upon any of the Bank's resources in order to achieve the deadlines. The fact that all the projects were completed on time reflects great credit not only on the Bank staff involved, but on our new colleagues in Basingstoke and Toronto who most willingly and ably assisted us in the exercise.

Sun Life of Canada's commitment to us was further evidenced by its injection of £4m of new capital to preserve the Banks already strong capital ratios. These continue to exceed the internationally agreed minimum requirements - particularly with regard to our Tier One capital position. All of this work meant that by the end of 1994, loans to customers administered by the Bank had grown from £448m to £635m - an increase of 42%. This very good news represents a significant increase in future earnings potential for the Bank from 1995 onwards.

The efficient laying of these important foundations meant that we were prepared for the launch of our product range to the Sun Life of Canada fieldforce in early 1995.

### Counting the Cost

The Banks post tax profit for 1994 was £1.21m, down £1.44m (54%) on 1993. Superficially, this performance appears to be disappointing yet we regard the financial results for the year as highly creditable when all factors are taken into account.

Most importantly and despite the complications created by the events in Canada, we have returned a profit. Our decision to manage our liquidity with extra prudence because of the Confederation situation, meant that we retained significantly more liquid assets than would otherwise have been the case throughout the middle of 1994. This in turn impacted upon the levels of interest income that we could generate through that period. Our desire to change our name was paramount and proved a costly one-off exercise. The enormous public response to our unprecedented levels of media coverage also meant that, to maintain the high standards of service we set ourselves, we needed to upgrade our technology and this in turn led to a higher depreciation charge.





## Sun Banking Corporation Limited

All this expense was undertaken against the background of a cut-throat mortgage industry where supply considerably exceeds demand and discount and cashback products - both loss leaders - dominate the new business market. The market has also suffered because of the Government stance towards mortgage payments for those on income support. The Government appears determined to make more cuts in this area and we have decided to strengthen our provisions for borrowers on income support. Despite this, the provisions charge is down 26% on 1993 and we expect to see further reductions this year, a reflection of our encouraging arrears performance - total mortgage arrears down 25% on 1994.

In spite of the reduced profit, our sustained financial fitness is demonstrated by the growth in all our lines of business. At the end of 1994, the Bank managed £600m of mortgages - of which £175m have been securitised via Maple Mortgage Securities.

The asset finance (leasing and hire purchase) line has also continued its expansion with loan balances up 11%. This business provides the means to lease vehicles and equipment to doctors, vets and other professional people and well-established small businesses. It is a potentially lucrative and particularly skilled lending market where the Bank is focused more on ensuring the quality of the loan portfolio rather than the size of the profits available. We will not compromise our lending policy simply to enhance our returns.

Our deposit businesses continue to perform well, reaching our all time high of £330m in May. At the end of the year, deposits stood at £329m of which retail deposits accounted for more than 50% for the first time. This increase was achieved across the range of our market leading deposit accounts both onshore and via our Jersey subsidiary, Sun Banking Corporation (Jersey) Limited. Its "Jersey Gold" range of investments, targeted at expatriate investors and tax-conscious UK residents, are highly competitive and amount to more than £22m in deposits after only its full first year of operation. Truly, a high performer worthy of its name.

### The Future

We view the future with some excitement. Combining the Confederation Life and Sun Life of Canada fieldforce in early 1995 gives the Bank access to one of the largest direct sales forces in the UK financial marketplace. This development presents us with an opportunity to develop and expand our business dramatically through this enhanced distribution channel.

The launch of our residential mortgage and deposit product range to the Sun Life of Canada fieldforce has given us the opportunity to update and rationalise the entire range and to introduce new literature. We regard ourselves as strong, healthy, lean, fit and eager to do business and our new literature is designed to reflect just that. The product range is easy to understand and offers something for everyone.

We also distribute our deposits and asset finance business through Independent Financial Advisors and Asset Finance Brokers. These areas will be the target of more attention throughout 1995 to stimulate further business growth. Another major opportunity lies with the direct contacts which have been generated by the extensive media coverage on our competitive deposit products. A telemarketing programme has been established to enhance conversion levels of enquiries into accounts. The challenge ahead lies in developing the necessary systems to market and deliver a wider range of products to such interested customers.





## Sun Banking Corporation Limited

### **The Customer is King**

To perform profitably within a depressed and overcrowded marketplace such as ours, we have first to understand our customers' needs and wants and then commit ourselves to satisfying them with better quality service and products relevant to their requirements. Our customers, of course, include all those who introduce business to us. We aim to serve them well, borrowers, depositors and introducers, through our attentive and efficient Customer Services team.

The successful growth of our deposit base has made it possible to sustain a highly competitive standard variable mortgage rate. For the second year in succession, we have won awards from 'What Mortgage' magazine within the Centralised Lender category, for the competitiveness of our standard variable interest rate over both 2 and 5 year periods. This reflects our policy of taking care of our existing customers - not sacrificing them on the altar of discounted or cashback mortgages just to generate new loss-leader business which existing customers would end up paying for.

All businesses aspire to some degree of customer care today, but few succeed. If Sun Banking Corporation Limited is to realise its objectives in the future, we must continue to treat our customers as well as we would expect to be treated ourselves in our own personal activities. So far, we appear to have performed well. We aim to do better. Hence our investment in staff training and state-of-the-art technology. Knowing more about our customers and their dreams and aspirations is the result of research and analysis. We seek to anticipate people's desire to do business and then make the purchase option easy, and from someone in the organisation with whom the customer is already familiar. The day is not far away when our data-based profiling of our customers' financial affairs will generate a regular flow of reminders and suggestions for immediate action for the future protection of our customer's family and worldly goods.

Our theme for the future is the promise of fitness and vitality in all aspects of financial matters. The strength of Sun Life Assurance Company of Canada worldwide with its huge resources and AAA rating, the energy, experience and effectiveness of its field force, has more than doubled our distribution network. So, as a new member of Sun Life of Canada, we say: To your strength and security, we shall add the health and vitality of our own skills and commitment, to create a wealth of financial opportunities fit to set before a King!

### **FIXED ASSETS**

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

### **RESULTS AND DIVIDENDS**

The profit for the year attributable to shareholders amounted to £1,214,000 (1993 - £2,658,000) and is shown in the consolidated profit and loss account on page 10. The directors do not recommend the payment of a final dividend (1993 - £nil) and the profit attributable to shareholders will be transferred to reserves.

### **CAPITAL**

The capital of the company was increased by £4 million during the year by issuing 2,750,000 ordinary shares of £1 at par for cash and increasing the subordinated loan capital by £1,250,000 on 16 December 1994 in order to strengthen the capital base of the company.





## **Sun Banking Corporation Limited**

### **DIRECTORS AND DIRECTORS' INTERESTS**

Mr M Rosenfelder and Mr N P Broughton resigned as directors on 25 September 1994 and 19 October 1994 respectively.

Mr R W S Baker, Mr M E Bates and Mr M A Hasley were appointed as directors on 19 October 1994.

In accordance with the Company's Articles of Association, all other directors 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.

### **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 the 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

Ernst & Young resigned as auditors on 29 September 1994 and have confirmed that there are no circumstances connected with their resignation that should be brought to the attention of the members of the company.

Touche Ross & Co. were appointed as auditors on 29 September 1994 and have expressed their willingness to continue in office as auditors. A resolution proposing their reappointment will be submitted at the Annual General Meeting.

By Order of the Board

**K. J. H. MALDE**

Secretary  
23 March 1995





## 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 1994 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Touche Ross & Co.  
Chartered Accountants and Registered Auditors  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

23 March 1995





# Sun Banking Corporation Limited

## Consolidated Profit and Loss Account for the Year Ended 31 December 1994

|  | Notes | <u>1994</u><br>£000 | <u>1993</u><br>£000 |
|--|-------|---------------------|---------------------|
| Interest receivable:   |       |                     |                     |
| Interest receivable and similar income<br>arising from debt securities |       | 1,417               | 783                 |
| Other interest receivable and similar income                           | 5     | <u>45,734</u>       | <u>50,727</u>       |
|  |       | 47,151              | 51,510              |
| Interest payable   | 6     | <u>(39,316)</u>     | <u>(42,667)</u>     |
| <b>Net interest income</b>   |       | <b>7,835</b>        | <b>8,843</b>        |
| Fees and commissions receivable  |       | 2,030               | 1,696               |
| Fees and commissions payable   |       | <u>(1,465)</u>      | <u>(1,310)</u>      |
| <b>Net fees and commissions</b>  |       | <u>565</u>          | <u>386</u>          |
| <b>Total operating income</b>  |       | <b>8,400</b>        | <b>9,229</b>        |
| Administrative expenses  | 7     | (3,967)             | (3,758)             |
| Exceptional items - name change expenses                               | 8     | (203)               | -                   |
| Depreciation and amortisation  | 15    | <u>(453)</u>        | <u>(319)</u>        |
| <b>Total operating expenses</b>  |       | <u>(4,623)</u>      | <u>(4,077)</u>      |
| <b>Net profit before provisions</b>                                    |       | <b>3,777</b>        | <b>5,152</b>        |
| Provisions for bad and doubtful debts                                  | 12    | <u>(1,651)</u>      | <u>(2,242)</u>      |
| <b>Profit on ordinary activities before taxation</b>                   |       | <b>2,126</b>        | <b>2,910</b>        |
| Taxation on profit on ordinary activities                              | 9     | <u>(912)</u>        | <u>(252)</u>        |
| <b>Profit for the financial year</b>                                   | 21    | <u><b>1,214</b></u> | <u><b>2,658</b></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 1994

|   | Notes | <u>1994</u><br>£000   | <u>1993</u><br>£000   |
|---|-------|-----------------------|-----------------------|
| <b>Assets</b>   |       |                       |                       |
| Loans and advances to banks   | 11    | 28,782                | 18,965                |
| Loans and advances to customers:  |       |                       |                       |
| - due within one year   | 12    | 21,465                | 18,342                |
| - due after one year  | 12    | 413,153               | 349,547               |
| Loans and advances to customers<br>subject to securitisation arrangements | 13    | 174,663               | -                     |
| Less: non-returnable finance  |       | (174,663)             | -                     |
| Debt securities   | 14    | 19,000                | 42,500                |
| Amounts due from group undertakings                                       |       | 163                   | 257                   |
| Tangible fixed assets   | 15    | 4,423                 | 4,604                 |
| Other assets  |       | 1,988                 | 829                   |
| Prepayments and accrued income  |       | 2,885                 | 2,653                 |
| Unamortised fees and commissions paid                                     |       | <u>3,178</u>          | <u>2,672</u>          |
| <b>Total Assets</b>   |       | <b><u>495,037</u></b> | <b><u>440,369</u></b> |
| <b>Liabilities</b>  |       |                       |                       |
| Deposits by banks   | 16    | 31,266                | 19,000                |
| Customer accounts   | 17    | 326,244               | 285,820               |
| Amounts due to group undertakings   | 18    | 50,032                | 50,586                |
| Deep Discount Bond  | 19    | 40,500                | 45,000                |
| Other liabilities   |       | 3,663                 | 1,845                 |
| Provision for liabilities and charges                                     | 24    | <u>200</u>            | <u>200</u>            |
|   |       | 451,905               | 402,451               |
| Share capital   | 20    | 25,500                | 22,750                |
| Reserves  |       | 39                    | 39                    |
| Profit and loss account   |       | <u>5,093</u>          | <u>3,879</u>          |
| Equity shareholders' funds  | 21    | 30,632                | 26,668                |
| Subordinated loan capital   | 22    | <u>12,500</u>         | <u>11,250</u>         |
|   |       | 43,132                | 37,918                |
| <b>Total Liabilities</b>  |       | <b><u>495,037</u></b> | <b><u>440,369</u></b> |
| <b>Memorandum items</b>   |       |                       |                       |
| Other commitments   | 26    | <u>3,717</u>          | <u>6,183</u>          |

Approved by the Board of Directors on 23 March 1995

Director

(K. J. MAUDE)

Director

(C. J. WATTS)

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





# Sun Banking Corporation Limited

## Balance Sheet as at 31 December 1994

|   | Notes | <u>1994</u><br>£000   | <u>1993</u><br>£000   |
|---|-------|-----------------------|-----------------------|
| <b>Assets</b>   |       |                       |                       |
| Loans and advances to banks   | 11    | 28,754                | 18,996                |
| Loans and advances to customers:  |       |                       |                       |
| - due within one year   | 12    | 21,370                | 18,218                |
| - due after one year  | 12    | 399,664               | 334,178               |
| Loans and advances to customers<br>subject to securitisation arrangements | 13    | 174,663               | -                     |
| Less: non-returnable finance  |       | (174,663)             | -                     |
| Debt securities   | 14    | 19,000                | 42,500                |
| Investment in subsidiary undertakings                                     | 23    | 3,500                 | 3,500                 |
| Amounts due from group undertakings                                       |       | 12,787                | 13,861                |
| Tangible fixed assets   | 15    | 4,422                 | 4,603                 |
| Other assets  |       | 1,947                 | 678                   |
| Prepayments and accrued income  |       | 2,841                 | 2,592                 |
| Unamortised fees and commissions paid                                     |       | <u>3,155</u>          | <u>2,605</u>          |
| <b>Total Assets</b>   |       | <b><u>497,440</u></b> | <b><u>441,731</u></b> |
| <b>Liabilities</b>  |       |                       |                       |
| Deposits by banks   | 16    | 31,672                | 19,000                |
| Customer accounts   | 17    | 328,722               | 288,225               |
| Amounts due to group undertakings   | 18    | 50,032                | 50,574                |
| Deep Discount Bond  | 19    | 40,500                | 45,000                |
| Other liabilities   |       | 3,550                 | 1,681                 |
| Provision for liabilities and charges                                     | 24    | <u>200</u>            | <u>200</u>            |
|   |       | 454,676               | 404,680               |
| Share capital   | 20    | 25,500                | 22,750                |
| Profit and loss account   |       | <u>4,764</u>          | <u>3,051</u>          |
| Equity shareholders' funds  | 21    | 30,264                | 25,801                |
| Subordinated loan capital   | 22    | <u>12,500</u>         | <u>11,250</u>         |
|   |       | 42,764                | 37,051                |
| <b>Total Liabilities</b>  |       | <b><u>497,440</u></b> | <b><u>441,731</u></b> |
| <b>Memorandum items</b>   |       |                       |                       |
| Other commitments   | 26    | <u>3,542</u>          | <u>5,800</u>          |

Approved by the Board of Directors on 23 March 1995

Director

(K. J. MALDE)

Director

(C. J. WATTS)

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 1994

#### 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.

##### FEES 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 1994**

#### **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 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 (1993-nil).

#### **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, as fixed assets, and are intended for use on a continuing basis in the activities of the Bank. Debt securities held as fixed assets 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 Confederation Management Limited. 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.

#### **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.





## **Sun Banking Corporation Limited**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994**

#### **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 it is showing a profit. Where such a transaction does not adversely distort the future profitability of the portfolio, the swap termination profit is taken to the profit and loss account immediately.

#### **2. PARENT UNDERTAKING**

The immediate parent undertaking is Confederation Financial Services (UK) Limited, and the intermediate parent undertaking is Confederation U.K. Holdings plc. Both companies are 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 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 statements of Sun Banking Corporation Limited and all its subsidiary undertakings made up to 31 December 1994.

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 retail banking which is wholly conducted within the United Kingdom and Channel Islands.

#### **5. INTEREST RECEIVABLE**

Aggregate rentals receivable in relation to lease financing and instalment finance were £19.2 million (1993 - £12.9 million) and the net interest income is £4.5 million (1993 - £3.8 million). Early redemption interest penalties on fixed rate mortgages received and recognised as income during the year amounted to £479,000 (1993-£904,000).





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 6. INTEREST PAYABLE

Included in interest payable is an amount of £619,514 (1993 - £676,000) representing the amount due on the subordinated loan capital.

### 7. ADMINISTRATIVE EXPENSES

|                                   | <u>1994</u><br>£000 | <u>1993</u><br>£000 |
|-----------------------------------|---------------------|---------------------|
| Administrative expenses include:- |                     |                     |
| Staff costs                       |                     |                     |
| Wages and salaries                | 2,148               | 2,033               |
| Social Security costs             | 161                 | 173                 |
| Other pension costs               | <u>188</u>          | <u>190</u>          |
| Total staff costs                 | 2,497               | 2,396               |
| Auditors' remuneration            |                     |                     |
| Audit services                    | 47                  | 35                  |
| Non audit services                | 56                  | 14                  |
| Operating lease rentals           | 78                  | 70                  |
| Other administrative expenses     | <u>1,289</u>        | <u>1,243</u>        |
|                                   | <u>3,967</u>        | <u>3,758</u>        |

|  | <u>Number</u> | <u>Number</u> |
|--|---------------|---------------|
| Average number of persons employed during the year | <u>96</u>     | <u>91</u>     |
|  | <u>£000</u>   | <u>£000</u>   |

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

|  |            |            |
|--|------------|------------|
| Fees   | 10         | 10         |
| Other emoluments (including pension contributions) | <u>330</u> | <u>433</u> |
|  | <u>340</u> | <u>443</u> |

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

|                       |           |            |
|-----------------------|-----------|------------|
| Chairman              | -         | -          |
| Highest paid director | <u>99</u> | <u>125</u> |





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

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

|          |   |          | Number of Directors |             |
|----------|---|----------|---------------------|-------------|
|          |   |          | <u>1994</u>         | <u>1993</u> |
| £0       | - | £5,000   | 5                   | 2           |
| £5,001   | - | £10,000  | 2                   | 1           |
| £10,001  | - | £15,000  | -                   | 1           |
| £40,001  | - | £45,000  | 1                   | -           |
| £50,001  | - | £55,000  | -                   | 1           |
| £55,001  | - | £60,000  | -                   | 1           |
| £75,001  | - | £80,000  | 2                   | -           |
| £80,001  | - | £85,000  | -                   | 2           |
| £95,001  | - | £100,000 | 1                   | -           |
| £125,001 | - | £130,000 | -                   | 1           |

|    |                          |             |             |
|----|--------------------------|-------------|-------------|
| 8. | <b>EXCEPTIONAL ITEMS</b> | <u>1994</u> | <u>1993</u> |
|    |                          | <b>£000</b> | <b>£000</b> |

|   |            |          |
|---|------------|----------|
| Expenses in relation to change of name of the company | <u>203</u> | <u>—</u> |
|---|------------|----------|

|    |                 |             |             |
|----|-----------------|-------------|-------------|
| 9. | <b>TAXATION</b> | <u>1994</u> | <u>1993</u> |
|    |                 | <b>£000</b> | <b>£000</b> |

The Bank and its subsidiary undertakings

|   |             |             |
|---|-------------|-------------|
| United Kingdom Corporation Tax charge at 33% (1993 - 33%) | 953         | 79          |
| Deferred tax  | -           | 200         |
| Adjustment to prior year taxation                         | <u>(41)</u> | <u>(27)</u> |
|   | <u>912</u>  | <u>252</u>  |

The tax charge is high due to the reversal of timing differences without an accompanying release of the deferred tax provision (note 24).

## 10. PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

The profit attributable to ordinary shareholders dealt with in the financial statements of the company was £1,713,000 (1993-£1,101,000).

## 11. LOANS AND ADVANCES TO BANKS

|                     | GROUP         |               | COMPANY       |               |
|---------------------|---------------|---------------|---------------|---------------|
|                     | <u>1994</u>   | <u>1993</u>   | <u>1994</u>   | <u>1993</u>   |
|                     | <b>£000</b>   | <b>£000</b>   | <b>£000</b>   | <b>£000</b>   |
| Repayable:          |               |               |               |               |
| On demand           | 29            | 1,243         | 1             | 1,274         |
| Within three months | 27,800        | 17,001        | 27,800        | 17,001        |
| After five years    | <u>953</u>    | <u>721</u>    | <u>953</u>    | <u>721</u>    |
|                     | <u>28,782</u> | <u>18,965</u> | <u>28,754</u> | <u>18,996</u> |

The Bank is required to maintain balances with the Bank of England which at 31 December 1994 amounted to £953,000 (1993 - £721,000).





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 12. LOANS AND ADVANCES TO CUSTOMERS

|                    | GROUP          |                | COMPANY        |                |
|--------------------|----------------|----------------|----------------|----------------|
|                    | <u>1994</u>    | <u>1993</u>    | <u>1994</u>    | <u>1993</u>    |
|                    | <u>£000</u>    | <u>£000</u>    | <u>£000</u>    | <u>£000</u>    |
| Mortgage advances  | 397,380        | 336,320        | 383,796        | 320,827        |
| Instalment finance | 20,667         | 17,618         | 20,667         | 17,618         |
| Lease financing    | 9,460          | 9,580          | 9,460          | 9,580          |
| Other advances     | <u>7,111</u>   | <u>4,371</u>   | <u>7,111</u>   | <u>4,371</u>   |
|                    | <u>434,618</u> | <u>367,889</u> | <u>421,034</u> | <u>352,396</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 million (1993 - £15 million).

The cost of assets acquired during the year for the purpose of letting under lease financing and hire purchase contracts amounted to £5.8 million (1993-£7.4 million) and £14.3 million (1993-£12.9 million) respectively.

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

|                                   | GROUP          |                | COMPANY        |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | <u>1994</u>    | <u>1993</u>    | <u>1994</u>    | <u>1993</u>    |
|                                   | <u>£000</u>    | <u>£000</u>    | <u>£000</u>    | <u>£000</u>    |
| On demand                         | 4,506          | 4,514          | 4,411          | 4,390          |
| Within three months               | 5,553          | 4,648          | 5,553          | 4,648          |
| Between three months and one year | 11,406         | 9,180          | 11,406         | 9,180          |
| Between one year and five years   | 22,140         | 14,837         | 22,140         | 14,837         |
| After five years                  | <u>391,013</u> | <u>334,710</u> | <u>377,524</u> | <u>319,341</u> |
|                                   | <u>434,618</u> | <u>367,889</u> | <u>421,034</u> | <u>352,396</u> |

and stated net of the following provisions:-

|                                      |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Balance at 1 January                 | 2,418        | 2,210        | 2,262        | 646          |
| Applied in writing off advances      | (1,670)      | (2,034)      | (1,697)      | (608)        |
| Transfer from subsidiary undertaking | -            | -            | -            | 1,290        |
| Charge for the year                  | <u>1,651</u> | <u>2,242</u> | <u>1,828</u> | <u>934</u>   |
| Balance at 31 December               | <u>2,399</u> | <u>2,418</u> | <u>2,393</u> | <u>2,262</u> |





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 13. LOANS AND ADVANCES SUBJECT TO SECURITISATION ARRANGEMENTS

Sun Banking Corporation Limited has sold, for full value, a portfolio of secured loans in a public securitisation on 19 December 1994. The total value of assets sold under this transaction at 31 December 1994 was £174.7 million. The assets sold comprised loans which were secured by first mortgages over residential property.

An analysis of the amounts sold together with the current outstanding balance under the various transactions is set down below:

| Description of loans       | Type of transaction | Aggregate                               | Balance                                     |
|----------------------------|---------------------|---|---|
|                            |                     | value of<br>loans sold<br>1994<br>£'000 | outstanding<br>31 December<br>1994<br>£'000 |
| Securitised domestic loans |                     |   |   |
| - First Mortgages          | Securitisation      | <u>174,991</u>                          | <u>174,663</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. No income has been recognised during the year due to the short time interval between securitisation and year end.

#### (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 1994

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

All proceeds are payable to Maple 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 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 to Sun Banking Corporation Limited over the terms of the scheme to the extent that they are not required to meet write offs. The subordinated loans of £1.75 million are included in Other Assets.

(j) **Securitisation vehicles**

The company formed in connection with the public securitisation ("the vehicle") is registered in England & Wales. The vehicle has a holding company, Maple Mortgage Holdings Limited ("MHL"), which is a private company with limited liability which is itself owned by a company which holds all of the issued shares in a discretionary charitable trust.





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### (j) Securitisation Vehicle (continued)

Under the provisions of FRS5 the results of MHL have, as a quasi-subsiary, been included in the Sun Banking Corporation's group accounts. Detailed below are the summarised unaudited consolidated financial statements of MHL for the period ended 31 December 1994.

|                                 | 1994<br><u>£000</u>                                      |
|---------------------------------|--|
| Balance sheet:                  |  |
| Loans and advances to customers | 174,663  |
| Other assets                    | 5,695  |
| Creditors                       | (180,305)  |
| Total net assets                | <u>53</u>  |
|                                 | <b>19 December 1994 to<br/>31 December 1994<br/>£000</b> |
| Profit and Loss account:        |  |
| Total income                    | 488  |
| Total expenses                  | <u>(435)</u>   |
| Profit after taxation           | <u>53</u>  |

Statement of total recognised gains and losses:

There are no recognised gains or losses other than the profit for the year

|                                       | 1994<br><u>£000</u> |
|---------------------------------------|---------------------|
| Cash flow statement:                  |                     |
| Net cash outflow before financing     | (170,281)           |
| Net cash inflow from financing        | <u>175,000</u>      |
| Increase in cash and cash equivalents | <u>4,719</u>        |

### 14. DEBT SECURITIES

|  | 1994<br><u>£000</u> | 1993<br><u>£000</u> |
|--|---------------------|---------------------|
| For the Group and Company  |                     |                     |
| Issued by other issuers:   |                     |                     |
| Bank Certificates of Deposit   | <u>19,000</u>       | <u>42,500</u>       |
| The movement on debt securities held for investment purposes is as follows:- |                     |                     |
| Cost:  |                     |                     |
| At 1 January   | 42,500              | -                   |
| Additions  | 760,000             | 135,000             |
| Disposals  | (783,500)           | (92,500)            |
| At 31 December   | <u>19,000</u>       | <u>42,500</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.





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 15. TANGIBLE FIXED ASSETS

#### (a) GROUP

|                       | Freehold<br>Land &<br>Building<br>£000 | Computers<br>Machinery<br>& Furniture<br>£000 | Motor<br>Vehicles<br>£000 | Total<br>£000 |
|-----------------------|--|---|---------------------------|---------------|
| <b>COST</b>           |  |   |                           |               |
| At 1 January 1994     | 4,047                                  | 1,568   | 15                        | 5,630         |
| Acquisitions          | -                                      | 286   | -                         | 286           |
| Disposals             | -                                      | (57)  | (4)                       | (61)          |
| At 31 December 1994   | <u>4,047</u>                           | <u>1,797</u>                                  | <u>11</u>                 | <u>5,855</u>  |
| <b>DEPRECIATION</b>   |  |   |                           |               |
| At 1 January 1994     | 162                                    | 854   | 10                        | 1,026         |
| Charge for the year   | 80                                     | 372   | 1                         | 453           |
| On disposals          | -                                      | (44)  | (3)                       | (47)          |
| At 31 December 1994   | <u>242</u>                             | <u>1,182</u>                                  | <u>8</u>                  | <u>1,432</u>  |
| <b>NET BOOK VALUE</b> |  |   |                           |               |
| At 31 December 1994   | <u>3,805</u>                           | <u>615</u>                                    | <u>3</u>                  | <u>4,423</u>  |
| At 31 December 1993   | <u>3,885</u>                           | <u>714</u>                                    | <u>5</u>                  | <u>4,604</u>  |

#### (b) COMPANY

#### COST

|                     |              |              |           |              |
|---------------------|--------------|--------------|-----------|--------------|
| At 1 January 1994   | 4,047        | 1,567        | 15        | 5,629        |
| Acquisitions        | -            | 286          | -         | 286          |
| Disposals           | -            | (57)         | (4)       | (61)         |
| At 31 December 1994 | <u>4,047</u> | <u>1,796</u> | <u>11</u> | <u>5,854</u> |

#### DEPRECIATION

|                     |            |              |          |              |
|---------------------|------------|--------------|----------|--------------|
| At 1 January 1994   | 162        | 854          | 10       | 1,026        |
| Charge for the year | 80         | 372          | 1        | 453          |
| On disposals        | -          | (44)         | (3)      | (47)         |
| At 31 December 1994 | <u>242</u> | <u>1,182</u> | <u>8</u> | <u>1,432</u> |

#### NET BOOK VALUE

|                     |              |            |          |              |
|---------------------|--------------|------------|----------|--------------|
| At 31 December 1994 | <u>3,805</u> | <u>614</u> | <u>3</u> | <u>4,422</u> |
| At 31 December 1993 | <u>3,885</u> | <u>713</u> | <u>5</u> | <u>4,603</u> |

The freehold land and building is occupied by the Bank, as well as 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.





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

| 16. DEPOSITS BY BANKS           | GROUP         |               | COMPANY       |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | <u>1994</u>   | <u>1993</u>   | <u>1994</u>   | <u>1993</u>   |
|                                 | £000          | £000          | £000          | £000          |
| Repayable:                      |               |               |               |               |
| On demand                       | 766           | -             | 1,172         | -             |
| Within three months             | 15,000        | 15,000        | 15,000        | 15,000        |
| Between six months and one year | 7,500         | -             | 7,500         | -             |
| Between one year and five years | <u>8,000</u>  | <u>4,000</u>  | <u>8,000</u>  | <u>4,000</u>  |
|                                 | <u>31,266</u> | <u>19,000</u> | <u>31,672</u> | <u>19,000</u> |

| 17. CUSTOMER ACCOUNTS             | GROUP          |                | COMPANY        |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | <u>1994</u>    | <u>1993</u>    | <u>1994</u>    | <u>1993</u>    |
|                                   | £000           | £000           | £000           | £000           |
| Repayable:                        |                |                |                |                |
| On demand                         | 14,621         | 10,462         | 17,099         | 10,462         |
| Within three months               | 164,194        | 147,115        | 164,194        | 149,520        |
| Between three months and one year | 108,327        | 97,688         | 108,327        | 97,688         |
| Between one year and five years   | 35,602         | 30,555         | 35,602         | 30,555         |
| Over five years                   | <u>3,500</u>   | <u>-</u>       | <u>3,500</u>   | <u>-</u>       |
|                                   | <u>326,244</u> | <u>285,820</u> | <u>328,722</u> | <u>288,225</u> |

Included in the customer accounts of the group and company are amounts for accrued interest of £6.9 million (1993 - £8.8 million).

| 18. AMOUNTS DUE TO GROUP UNDERTAKINGS   | GROUP         |               | COMPANY       |               |
|---|---------------|---------------|---------------|---------------|
|   | <u>1994</u>   | <u>1993</u>   | <u>1994</u>   | <u>1993</u>   |
|   | £000          | £000          | £000          | £000          |
| Loan from ultimate parent undertaking drawn under facilities maturing between three months and one year | 50,000        | -             | 50,000        | -             |
| Loan from fellow subsidiary undertaking drawn under facilities maturing between one year and two years  | -             | 50,000        | -             | 50,000        |
| Other amounts due to fellow subsidiary undertakings   | 7             | 581           | 7             | 569           |
| Other amounts due to intermediate parent undertaking  | -             | 5             | -             | 5             |
| Other amounts due to ultimate parent undertaking  | <u>25</u>     | <u>-</u>      | <u>25</u>     | <u>-</u>      |
|   | <u>50,032</u> | <u>50,586</u> | <u>50,032</u> | <u>50,574</u> |

Interest on the loan from the ultimate parent undertaking is charged at a rate linked to LIBOR applicable to the term of the interest period at the start of the term.





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 19. 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 2010. The whole amount of the subscription price has been swapped into floating interest rates linked to LIBOR. The Bank has the option to redeem the bond in the year 2005.

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

### 20. SHARE CAPITAL

|  | <u>1994</u><br>£000 | <u>1993</u><br>£000 |
|--|---------------------|---------------------|
| <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> |                     |                     |
| 25,500,000 Ordinary shares of £1 each    | <u>25,500</u>       | <u>22,750</u>       |

On 16 December 1994, 2,750,000 Ordinary shares of £1 each were issued at par for cash in order to strengthen the capital base of the company.

### 21. EQUITY SHAREHOLDERS' FUNDS

|                           | <b>GROUP</b>        |                     | <b>COMPANY</b>      |                     |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
|                           | <u>1994</u><br>£000 | <u>1993</u><br>£000 | <u>1994</u><br>£000 | <u>1993</u><br>£000 |
| At 1 January              | 26,668              | 24,010              | 25,801              | 24,700              |
| Increase in share capital | 2,750               | -                   | 2,750               | -                   |
| Profit for the year       | <u>1,214</u>        | <u>2,658</u>        | <u>1,713</u>        | <u>1,101</u>        |
| At 31 December            | <u>30,632</u>       | <u>26,668</u>       | <u>30,264</u>       | <u>25,801</u>       |





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 22. SUBORDINATED LOAN CAPITAL

|  | <u>1994</u><br>£000 | <u>1993</u><br>£000 |
|--|---------------------|---------------------|
| For the Group and the Company:                                 |                     |                     |
| Subordinated loan capital from intermediate parent undertaking | <u>12,500</u>       | <u>11,250</u>       |

The subordinated loan capital was increased by £1,250,000 on 16 December 1994 to strengthen the capital base of the company.

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.

### 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:

|   | <b>Principal Activity</b>                    |
|---|--|
| Sun Banking Corporation (Jersey) Limited<br>(Channel Islands) | Offshore Banking                             |
| Confederation Mortgage Services (UK) Limited                  | Provision of residential mortgages           |
| Primett Property Management Limited                           | Provision of property management<br>services |

### 24. DEFERRED TAXATION

The potential liability to deferred taxation is as follows:-

|   | <b>GROUP</b>             |                            | <b>COMPANY</b>           |                            |
|---|--------------------------|----------------------------|--------------------------|----------------------------|
|   | <u>1994</u><br>£000      | <u>1993</u><br>£000        | <u>1994</u><br>£000      | <u>1993</u><br>£000        |
| Capital allowances on finance leases  | (393)                    | 415                        | (393)                    | 415                        |
| Other differences in recognising<br>revenue and expense items in<br>other periods for taxation purposes | <u>631</u><br><u>238</u> | <u>882</u><br><u>1,297</u> | <u>623</u><br><u>230</u> | <u>859</u><br><u>1,274</u> |

No additional provision (1993 - £200,000) for deferred tax on the above timing differences has been provided by the group and the company.





# Sun Banking Corporation Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

### 25. PENSION SCHEME

The company participates in a group scheme for the employees of Confederation U.K. Holdings plc and its subsidiary undertakings. The scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company and the group. The assets of the scheme relating to contributions made by the UK members of the scheme, including Sun Banking Corporation Limited, are held separately from other assets of the pension scheme and are referred to as the Confederation Life U.K. Pension Scheme.

The latest actuarial valuation on the scheme, carried out by a professionally qualified actuary, was at 1 January 1993 using the projected unit credit actuarial cost method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment return would be 9% per annum and salaries would increase by 7% per annum in the period to retirement.

The latest actuarial valuation showed that the value of the Plan's assets was £47.9 million and the actuarial value of the assets represented 95% of the proposed benefit obligation at the valuation date.

The total pension charge in the current year was £187,506 (1993-£189,537).

### 26. COMMITMENTS

Mortgage advances on offer subject to acceptance and contract at 31 December 1994 for the group amounted to £3.7 million (1993-£6.1 million) and for the company amounted to £3.5 million (1993 - £5.8 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>1994</u><br>£000 | <u>1993</u><br>£000 |
|------------------------------------|---------------------|---------------------|
| Operating leases which expire      |                     |                     |
| - within one year                  | 57                  | 23                  |
| - between two years and five years | <u>77</u>           | <u>113</u>          |





## Sun Banking Corporation Limited

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1994

#### 27. FORWARD AND FUTURES CONTRACTS

The notional principal amount outstanding at the balance sheet date is as follows:-

|   | <u>1994</u>  | <u>1993</u>  |
|---|--------------|--------------|
|   | <u>£000</u>  | <u>£000</u>  |
| For the Group and the Company:                |              |              |
| Interest rate contracts for hedging purposes: |              |              |
| Contract amount                               | 275,000      | 150,500      |
| Risk weighted amount                          | <u>3,464</u> | <u>1,814</u> |

Replacement cost is not calculated as all contracts are for hedging purposes only.