

Sun Bank plc

Report and Financial Statements 2002

DIRECTORS

A D Hankin
K R Holt
P D Howard
A N Russell
R Sharpe**
G M Smith**
W Tudor John*
M P V Wyles**

SECRETARY

A R Jones

REGISTERED OFFICE

The Icon
Lytton Way
Stevenage
Hertfordshire
SG1 1ZE

REGISTERED NUMBER

2222856 England

AUDITORS

KPMG Audit Plc
1 The Embankment
Neville Street
LEEDS
LS1 4DW

* External Non-Executive Director and member of the Audit Committee

** Group Non-Executive Director and member of the Audit Committee



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 2002.

ACTIVITY

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

REVIEW OF ACTIVITIES

Sun Bank plc recorded a strong financial performance in 2002 with operating profit of £12.1m, up 8% on 2001, and closing total assets of £1,343m, an 18% increase year on year. The asset growth is a result of £619m of new mortgage advances, £399m higher than 2001.

Principal business developments during the year include:-

- the sale of the Asset Finance book to ING Lease (UK) Ltd on 18 January 2002;
- the sale of the Commercial Mortgage book to First National Bank Plc on 1 March 2002;
- the liquidation of Sun Bank Offshore Limited; and
- the novation and repayment of a significant proportion of the Bank's deposit base.

The net profit on sale of the Asset Finance and Commercial Mortgage books was £2.9m.

Following the success of 2002, and in order to support the continued volume growth, a decision has been made that the Bank would be better located in Bournemouth, at the headquarters of its parent. This will allow efficient growth of the business by utilising the parent's infrastructure. All of the Bank staff have been offered the opportunity to relocate with the business.

The relocation will take place over two phases, the first of which will complete by June 2003 when all mortgage processing, from application to completion, and sales and marketing will be undertaken in Bournemouth. It is intended that the remainder of the business will relocate by June 2004.

CHARITABLE AND POLITICAL DONATIONS

Over the past year, the Bank has supported the Hertfordshire Community Foundation and has donated £5,000. Additionally, it has helped to raise a further £4,000 for a variety of charities and community organisations.

No political donations were made during the year.

Sun Bank plc

DIVIDENDS

No interim dividend has been paid during the year (2001 - £5.5m) and the Directors do not recommend payment of a final dividend.

DIRECTORS AND DIRECTORS' INTERESTS

Mr A D Hankin and Mr K R Holt were appointed as Directors on 26 November 2002 and Mr P Lucas resigned on the same day.

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.

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.

CORPORATE GOVERNANCE

It is the practice of the Bank to apply the highest standard of corporate governance. In this regard an Audit Committee exists which is chaired by an external Non-Executive Director.

The Group's remuneration policies are regularly reviewed to ensure the 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 made fully aware of developments in, and the financial results of, the Group.

GOING CONCERN

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

SUPPLIER PAYMENT POLICY AND PRACTICE

It is the Bank's policy that payments 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 KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

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 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.

Approved by the Board of Directors on 28 January 2003.



A R JONES
Company Secretary
28 January 2003

Sun Bank plc

Independent auditors' report to the members of Sun Bank plc

We have audited the financial statements on pages 6 to 27.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Directors' Report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors', are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group and Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group and Company is not disclosed.

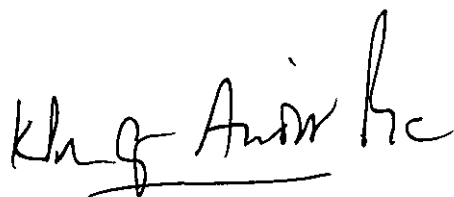
Basis of audit opinion

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 Group and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group and Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
LEEDS
LS1 4DW

28 January 2003

Sun Bank plc

Consolidated Profit and Loss Account for the Year Ended 31 December

	Notes	2002 Continuing Operations £000	2002 Discontinued Operations £000	2002 Total £000	2001 Restated £000
Interest receivable:					
Interest receivable and other similar income	6	83,473	2,129	85,602	113,502
Other interest receivable and similar income arising from debt securities		-	-	-	2,082
		83,473	2,129	85,602	115,584
Interest payable	7	(62,171)	(1,256)	(63,427)	(90,690)
Net interest income		21,302	873	22,175	24,894
Fees and commissions receivable		5,325	103	5,428	3,863
Fees and commissions payable	8	(2,613)	(67)	(2,680)	(2,074)
Net fees and commissions		2,712	36	2,748	1,789
Total operating income		24,014	909	24,923	26,683
Administrative expenses - ongoing	9	(10,608)	(541)	(11,149)	(11,311)
- exceptional	10	-	-	-	(3,541)
Depreciation and amortisation	19, 20	(334)	(3)	(337)	(154)
Total operating expenses		(10,942)	(544)	(11,486)	(15,006)
Provisions for bad and doubtful debts	16	(1,291)	(36)	(1,327)	(432)
Operating profit		11,781	329	12,110	11,245
Profit on termination and disposal of Group operations	11	-	2,854	2,854	-
Operating profit on ordinary activities before taxation		11,781	3,183	14,964	11,245
Tax charge on profit on ordinary activities	12			(4,390)	(3,296)
Profit for the financial year	13			10,574	7,949
Dividends paid	14			-	(5,500)
Retained profit for the year	26, 27			10,574	2,449
				2002	2001
Statement of total recognised gains and losses for the years ended 31 December				£000	Restated £000
Profit for the financial year				10,574	7,949
Prior period adjustments*				5,090	(2,319)
Total recognised gains and losses since last annual report				15,664	5,630

*The statement of total recognised gains and losses for the year ended 31 December 2002 includes a prior year adjustment relating to the adoption of FRS 19 'Deferred Tax'. For the year ended 31 December 2001 the prior year adjustment relates to the change in accounting policy on the treatment of Fees and Commissions paid.

There is no difference between the historical cost profits and losses and the profits and losses as presented in the profit and losses account above.

Sun Bank plc

Consolidated Balance Sheet as at 31 December

		<u>2002</u>	<u>2001</u>
		<u>£000</u>	<u>Restated</u> <u>£000</u>
Assets	Notes		
Cash and balances at central banks	15	728	657
Loans and advances to banks	15	-	500
Loans and advances to customers	16	1,328,037	1,120,296
Loans and advances to customers subject to securitisation arrangements	17	33,796	43,716
Less: non-returnable finance	17	(33,796)	(43,716)
Debt securities	18	-	-
Intangible fixed assets	19	-	(173)
Tangible fixed assets	20	1,110	883
Deferred tax	24	3,412	4,186
Other assets		3,828	4,454
Prepayments and accrued income		6,299	9,252
Total Assets		<u>1,343,414</u>	<u>1,140,055</u>
Liabilities			
Deposits by banks	21	1,177,848	120,177
Customer accounts	22	69,266	924,119
Other liabilities	23	13,332	16,365
Subordinated liabilities	28	13,000	20,000
		<u>1,273,446</u>	<u>1,080,661</u>
Equity Shareholders' Funds			
Called up share capital	25	38,000	38,000
Other reserves	27	39	39
Profit and loss account	27	31,929	21,355
	26	<u>69,968</u>	<u>59,394</u>
Total Liabilities and Shareholders' Funds		<u>1,343,414</u>	<u>1,140,055</u>
Memorandum items			
Other commitments	31	<u>162,295</u>	<u>52,861</u>

Approved by the Board of Directors on 28 January 2003 and signed on its behalf by:

Director

28 January 2003

Director

28 January 2003

Sun Bank plc

Balance Sheet as at 31 December

		<u>2002</u>	<u>2001</u>
		£000	Restated £000
Assets	Notes		
Cash and balances at central banks	15	728	657
Loans and advances to banks	15	-	500
Loans and advances to customers	16	1,326,779	1,098,154
Loans and advances to customers subject to securitisation arrangements	17	33,796	43,716
Less: non-returnable finance	17	(33,796)	(43,716)
Debt securities	18	-	-
Shares in Group undertakings	29	12,146	14,646
Amounts due from Group undertakings		-	5,523
Tangible fixed assets	20	1,110	883
Deferred tax	24	3,412	4,186
Other assets		3,794	4,283
Prepayments and accrued income		6,292	9,125
Total Assets		<u>1,354,261</u>	<u>1,137,957</u>
Liabilities			
Deposits by banks	21	1,177,983	120,426
Customer accounts	22	86,115	927,016
Other liabilities	23	13,046	16,172
Subordinated liabilities	28	13,000	20,000
		<u>1,290,144</u>	<u>1,083,614</u>
Equity Shareholders' Funds			
Called up share capital	25	38,000	38,000
Profit and loss account	27	26,117	16,343
	26	<u>64,117</u>	<u>54,343</u>
Total Liabilities and Shareholders' Funds		<u>1,354,261</u>	<u>1,137,957</u>
Memorandum items			
Other commitments	31	<u>162,295</u>	<u>52,861</u>

Approved by the Board of Directors on 28 January 2003 and signed on its behalf by:

Director

28 January 2003

Director

28 January 2003

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified for 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.

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 also made to cover losses which, although not specifically identified, are known to be present at the year end in any portfolio of advances.

The charge to the income and expenditure account comprises the increase in the provisions together with losses written off during the year and not previously provided for.

FEES AND COMMISSIONS PAID

All fees incurred are written off in the year in which they arise.

MORTGAGE PROMOTIONAL COSTS

The cost of cash incentives and discounts given on certain mortgage products is charged against interest receivable in the income and expenditure account in the year in which they arise.

NEGATIVE GOODWILL

Following the sale of the Commercial Mortgage book all of the negative goodwill arising from the acquisition of Exeter Trust Limited (formally Exeter Bank Limited) has been fully written back.

FIXED ASSETS AND DEPRECIATION

The useful economic lives of tangible fixed assets have been brought in line with the policy of the Group's parent. The cost of fixed assets less estimated residual value is written off on a straight line basis over their estimated useful lives as follows:

Equipment, fixtures, fittings and motor vehicles 3 to 10 years.

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

The Group has implemented the requirements of FRS 19 'Deferred Tax'. Under FRS 19, full provision is made for tax timing differences and, in particular, deferred tax assets can be recognised where it is more likely than not that there will be sufficient future profits against which to recover them. Previously, they were recognised only where it was probable that they would be recovered without replacement in the foreseeable future. Prior year figures have been restated accordingly as set out in note 24 to the Accounts.

DEBT SECURITIES

Debt securities are held for investment purposes and are 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. Any amounts so amortised are charged or credited to interest payable in the income and expenditure account in the relevant financial years.

PENSIONS

The Company participates in a defined benefit scheme and a defined contribution scheme operated by the immediate parent undertaking. Contributions to the defined benefit 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 Company. Contributions to the defined contribution scheme are charged to the profit and loss account on an accruals 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. Where swaps are terminated prior to the underlying hedged transaction terminating, any profits or losses realised upon early termination are deferred and matched against the income or expenditure arising from the underlying hedged transaction. If the underlying transaction is sold or terminated, the remaining unamortised gains or losses on the hedge are recognised in 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 undertaking and, therefore, under the revised FRS 1 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 undertaking.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

2. DISCONTINUED OPERATIONS

Discontinued operations refer to the disposal of the Commercial Mortgage book, the Asset Finance book and liquidation of Sun Bank Offshore Limited on 1 March 2002, 18 January 2002 and 30 September 2002 respectively. These operations are regarded as discontinued activities under FRS 3 for the purposes of Sun Bank plc's accounts.

The results of these discontinued operations for the period up to disposal and liquidation and the previous year are set out below:

	Period to disposal/ liquidation <u>2002</u> £000	Year to 31.12.2001 £000
Net interest income	873	6,923
Net fees and commissions receivable/(payable)	<u>36</u>	<u>(240)</u>
Operating income	909	6,683
Administrative expense	<u>(580)</u>	<u>(3,003)</u>
Operating profit	<u><u>329</u></u>	<u><u>3,680</u></u>

3. PARENT UNDERTAKING

On 30 November 2001, Portman Building Society acquired all the share capital of Sun Bank plc from Sun Life Financial Services of Canada Inc. From this date Portman Building Society became the immediate parent undertaking and controlling party. The Society is registered at Portman House, Richmond Hill, Bournemouth, BH2 6EP. The annual report of Portman Building Society can be obtained from this address.

4. BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial results of Sun Bank plc and all its subsidiary undertakings made up for the year to 31 December 2002.

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

5. SEGMENTAL REPORTING

In the opinion of the Directors, the Company has only one class of business, being banking, which is conducted wholly within the United Kingdom.

6. INTEREST RECEIVABLE AND OTHER SIMILAR INCOME

Aggregate rentals receivable in relation to lease financing and instalment finance were £2.2 million (2001 - £38.4 million) and the interest receivable thereon was £0.4 million (2001 - £6.8 million).

7. INTEREST PAYABLE

Included in interest payable is an amount of £717,386 (2001 - £936,165) representing the interest charge on the subordinated loan capital.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

8. FEES AND COMMISSIONS PAYABLE

	<u>2002</u> £000	<u>2001</u> £000
Fees and Commissions payable	<u>2,680</u>	<u>2,074</u>

Fees and Commissions payable in 2002 represent actual costs incurred during the year.

9. ADMINISTRATIVE EXPENSES

	<u>2002</u> £000	<u>2001</u> £000
Administrative expenses include:-		
Staff costs		
Wages and salaries	5,134	5,114
Social security costs	439	471
Other pension costs	662	479
Other staff costs	1,071	1,070
Total staff costs	<u>7,306</u>	<u>7,134</u>

Auditors' remuneration		
Audit services	72	84
Non audit services (see note 11)	-	49
Operating lease rentals	558	507

	<u>Number</u>	<u>Number</u>
Monthly average number of persons employed during the year	<u>188</u>	<u>191</u>
The aggregate amount of emoluments paid to Directors consisted of:-	<u>£000</u>	<u>£000</u>
Fees and emoluments	510	2,072
Pension contributions to Final Salary Plan	61	46
	<u>571</u>	<u>2,118</u>

The Final Salary Plan is a defined benefit scheme and the accrued benefit as at 31 December 2002 for the highest paid Director was £1,790 (2001 - £23,108). The total number of Directors accruing benefits under the Final Salary Plan was 4 (2001 - 3).

The Bank made a compensation payment in respect of one Director totalling £133,809.

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

	<u>2002</u> £000	<u>2001</u> £000
Highest paid Director	<u>259</u>	<u>914</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

10. EXCEPTIONAL ITEMS

	<u>2002</u> £000	<u>2001</u> £000
Expenses in respect of:-		
Information systems	-	227
Group reorganisation	-	2,315
Litigation	-	999
	<u>-</u>	<u>3,541</u>

11. PROFIT ON TERMINATION AND DISPOSAL OF GROUP OPERATIONS

	<u>2002</u> £000	<u>2001</u> £000
Profit on disposal of Commercial Mortgage book	2,783	-
Profit on disposal of Asset Finance book	71	-
	<u>2,854</u>	<u>-</u>

The above represents the net profit after incidental costs, including non-audit fee of £764,000, and release of specific and general provisions on disposal of the Asset Finance and Commercial Mortgage books.

The books were disposed of on 18 January 2002 and 1 March 2002 respectively at greater than par value.

12. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	<u>2002</u> £000	<u>2001</u> Restated £000
Current tax		
United Kingdom corporation tax at 30% (2001 - 30%)	3,634	2,664
Overseas tax	33	47
Adjustment for prior year	(52)	-
	<u>3,615</u>	<u>2,711</u>
Deferred tax		
Current year (note 24)	1,194	(781)
Adjustment for prior year (note 24)	(419)	1,366
	<u>4,390</u>	<u>3,296</u>

The current tax charge for the year differs from that calculated using the standard rate of UK corporation tax as follows:

	<u>2002</u> £000	<u>2001</u> Restated £000
Profit on ordinary activities before tax at the standard rate of UK corporation tax	4,489	3,374
Effects of:		
Expenses not deductible for tax purposes (including goodwill and non-taxable income)	476	126
Capital allowances for the year in excess of depreciation	(1,298)	(789)
Adjustment to the tax charge in respect of previous periods	(52)	-
Current tax charge for the year	<u>3,615</u>	<u>2,711</u>

As set out in note 24 to the Accounts, the Group have adopted FRS 19 'Deferred Tax' and have restated prior year results accordingly.

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

13. PROFIT FOR THE FINANCIAL YEAR

The profit attributable to ordinary shareholders dealt with in the financial statements of the Company was £9,773,949 (2001 restated - £582,139).

14. DIVIDENDS

No dividend has been paid or is proposed in respect of 2002 (2001 - £5.5 million).

15. CASH AND BALANCES AT CENTRAL BANKS AND LOANS AND ADVANCES TO BANKS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Remaining Maturity:				
Within three months	<u>728</u>	<u>1,157</u>	<u>728</u>	<u>1,157</u>

The Bank is required to maintain balances with the Bank of England based on certain regulatory criteria. At 31 December 2002 these amounted to £728,491 (2001 - £656,606).

16. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Residential mortgage advances	1,327,915	922,839	1,326,657	921,076
Commercial mortgage advances	-	132,012	-	111,635
Instalment finance	105	54,609	105	54,608
Lease financing	-	10,803	-	10,802
Other advances	<u>17</u>	<u>33</u>	<u>17</u>	<u>33</u>
	<u>1,328,037</u>	<u>1,120,296</u>	<u>1,326,779</u>	<u>1,098,154</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	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Remaining Maturity:				
Within three months	2,163	12,218	2,163	11,645
Between three months and one year	4,171	25,041	4,171	21,576
Between one year and five years	32,210	62,131	32,118	60,370
Over five years	<u>1,289,493</u>	<u>1,020,906</u>	<u>1,288,327</u>	<u>1,004,563</u>
	<u>1,328,037</u>	<u>1,120,296</u>	<u>1,326,779</u>	<u>1,098,154</u>

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

16. LOANS AND ADVANCES TO CUSTOMERS (continued)

Loans and advances to customers are stated net of the following provisions:-

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Specific Provisions				
Balance at 1 January	1,598	2,032	933	1,178
Interest suspended	-	32	-	-
Applied in writing off advances net of recoveries	(322)	(490)	(322)	(450)
Charge for the year	48	24	94	205
Release on termination and disposal of Group operations	(654)	-	(68)	-
Balance at 31 December	<u>670</u>	<u>1,598</u>	<u>637</u>	<u>933</u>
General Provisions				
Balance at 1 January	2,953	2,544	2,759	2,301
Charge for the year	1,279	409	1,285	458
Release on termination and disposal of Group operations	(1,744)	-	(1,559)	-
Balance at 31 December	<u>2,488</u>	<u>2,953</u>	<u>2,485</u>	<u>2,759</u>

17. 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 2002 was £33.8 million (2001 - £43.7 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:

	Type of Transaction	Aggregate Value of Loans sold <u>1994</u> £000	Balance Outstanding 31 December <u>2002</u> £000	Balance Outstanding 31 December <u>2001</u> £000
Securities domestic loans				
- First Mortgages	Securitisation	<u>174,991</u>	<u>33,796</u>	<u>43,716</u>

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

17. 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's right to receive certain entitlements.

(f) Linked presentation

Under the provisions of FRS 5, the assets securitised above 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 in 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.

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

17. LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO SECURITISATION ARRANGEMENTS (continued)

(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"), 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 FRS 5 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 2002.

	<u>2002</u> £000	<u>2001</u> £000
Balance sheet:		
Loans and advances to customers	33,796	43,716
Other assets	1,000	2,246
Creditors	<u>(34,796)</u>	<u>(45,962)</u>
Total net assets	<u>-</u>	<u>-</u>
Profit and Loss Account:		
Total income	4,623	7,716
Total expenses	<u>(4,623)</u>	<u>(7,716)</u>
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 £284,069 (2001 - £381,704), are included under fees and commissions receivable on page 6.

	<u>2002</u> £000	<u>2001</u> £000
Cash flow statement:		
Net cash (outflow)/inflow before financing and (decrease)/increase in cash	<u>(1,132)</u>	<u>926</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

18. DEBT SECURITIES

	<u>2002</u> £000	<u>2001</u> £000
For the Group and Company		
Issued by other issuers:		
Bank Certificates of Deposit	-	-

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

	<u>2002</u> £000	<u>2001</u> £000
Cost:		
At 1 January	-	50,000
Additions	-	201,000
Disposals	-	(251,000)
At 31 December	-	-

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

19. INTANGIBLE FIXED ASSETS

	<u>2002</u> £000	<u>2001</u> £000
Movement on negative goodwill		
Negative goodwill brought forward	173	518
Amortised to the profit and loss account	(173)	(345)
Total negative goodwill shown as intangible asset	-	173

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

20. TANGIBLE FIXED ASSETS

	Computers, Machinery & Furniture £000	Motor Vehicles £000	Total £000
(a) GROUP			
Cost			
At 1 January 2002	2,149	-	2,149
Additions	711	25	736
Disposals	(2)	-	(2)
At 31 December 2002	<u>2,858</u>	<u>25</u>	<u>2,883</u>
Depreciation			
At 1 January 2002	1,266	-	1,266
Charge for the year	504	5	509
Disposals	(2)	-	(2)
At 31 December 2002	<u>1,768</u>	<u>5</u>	<u>1,773</u>
Net Book Value			
At 31 December 2002	<u>1,090</u>	<u>20</u>	<u>1,110</u>
At 31 December 2001	<u>883</u>	<u>-</u>	<u>883</u>
(b) COMPANY			
Cost			
At 1 January 2002	2,147	-	2,147
Additions	711	25	736
Disposals	-	-	-
At 31 December 2002	<u>2,858</u>	<u>25</u>	<u>2,883</u>
Depreciation			
At 1 January 2002	1,264	-	1,264
Charge for the year	504	5	509
Disposals	-	-	-
At 31 December 2002	<u>1,768</u>	<u>5</u>	<u>1,773</u>
Net Book Value			
At 31 December 2002	<u>1,090</u>	<u>20</u>	<u>1,110</u>
At 31 December 2001	<u>883</u>	<u>-</u>	<u>883</u>

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

21. DEPOSITS BY BANKS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Remaining Maturity:				
On demand	10,206	1,836	10,341	2,085
Within three months	1,163,142	97,000	1,163,142	97,000
Between three months and one year	4,500	21,341	4,500	21,341
Between one and five years	-	-	-	-
	<u>1,177,848</u>	<u>120,177</u>	<u>1,177,983</u>	<u>120,426</u>

As at 31 December 2002, the Bank had undrawn committed lines of credit available from Portman Building Society amounting to £399 million with remaining maturities of between three and five years (2001 - £884 million).

22. CUSTOMER ACCOUNTS

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	£000	£000	£000
Remaining Maturity:				
On demand	-	1,044	-	1,044
Within three months	27,515	483,854	27,515	486,751
Between three months and one year	38,764	333,922	38,764	333,922
Between one and five years	1,237	103,549	1,237	103,549
Over five years	<u>1,750</u>	<u>1,750</u>	<u>1,750</u>	<u>1,750</u>
	69,266	924,119	69,266	927,016
Amounts due to fellow subsidiaries				
Remaining Maturity:				
Within three months	-	-	16,849	-
	<u>69,266</u>	<u>924,119</u>	<u>86,115</u>	<u>927,016</u>

Included in the customer accounts of the Group and Company are amounts for accrued interest of £2.1 million (2001 - £17.1 million).

23. OTHER LIABILITIES

	<u>2002</u>	<u>2001</u>
	£000	£000
Group		
Tax and social security	1,652	1,920
Accrued interest	8,576	10,637
Other liabilities	<u>3,104</u>	<u>3,808</u>
	<u>13,332</u>	<u>16,365</u>
Company		
Tax and social security	1,321	1,322
Accrued interest	8,578	10,637
Other liabilities	<u>3,147</u>	<u>4,213</u>
	<u>13,046</u>	<u>16,172</u>

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

24. DEFERRED TAX

	<u>2002</u>	<u>2001</u>
	£000	Restated £000
For the Company and the Group		
The amounts provided for deferred taxation, which represent the full potential deferred assets, are set out below:-		
Depreciation in excess of capital allowances	2,481	3,358
Other timing differences	931	828
	<u>3,412</u>	<u>4,186</u>

Change of accounting policy

The Company and Group have, during 2002, implemented the requirements of FRS 19 'Deferred Tax'. Under FRS 19, full provision is made for tax timing differences and, in particular, deferred tax assets can be recognised where it is more likely than not that there will be sufficient future taxable profits against which to recover them. Previously, they were recognised only where it was probable that they would be recovered without replacement in the foreseeable future.

Had the previous accounting policy continued, profit for the financial year ended 31 December 2002 would have been £1.2m higher for both the Company and the Group. Profit on ordinary activities before tax is unaffected by the change in accounting policy.

25. CALLED UP SHARE CAPITAL

	<u>2002</u> Number £000	<u>2001</u> Value £000	<u>2002</u> Number £000	<u>2001</u> Value £000
Authorised:				
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>38,000</u>	<u>38,000</u>	<u>38,000</u>	<u>38,000</u>

26. EQUITY SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	<u>2002</u> £000	<u>2001</u> Restated £000	<u>2002</u> £000	<u>2001</u> Restated £000
At 1 January	59,394	51,855	54,343	48,671
Profit retained for the financial year	10,574	2,449	9,774	582
Prior period adjustment	-	5,090	-	5,090
At 31 December	<u>69,968</u>	<u>59,394</u>	<u>64,117</u>	<u>54,343</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

27. STATEMENT OF MOVEMENT IN RESERVES

	GROUP		COMPANY	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	£000	Restated	£000	Restated
	£000	£000	£000	£000
Brought forward at 1 January	21,394	13,855	16,343	10,671
Profit retained for the financial year	10,574	2,449	9,774	582
Prior period adjustment	-	5,090	-	5,090
Carried forward at 31 December	<u>31,968</u>	<u>21,394</u>	<u>26,117</u>	<u>16,343</u>

28. SUBORDINATED LIABILITIES

	<u>2002</u>	<u>2001</u>
	£000	£000
For the Company and the Group:		
Subordinated liabilities	<u>13,000</u>	<u>20,000</u>

The subordinated liabilities relate fully to subordinated loan capital provided by Portman Building Society. Interest is charged on the loan capital at a rate linked to LIBOR. At least ten years' notice of cancellation or a shorter mutually agreed period must be given by the immediate 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.

29. SHARES IN GROUP UNDERTAKINGS

	<u>Shares</u>
	£000
Cost and net book value	
At 1 January 2002	14,646
Repayments	(2,500)
At 31 December 2002	<u>12,146</u>

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
Exeter Trust Limited	Provision of residential mortgages
Confederation Mortgage Services Limited	Provision of residential mortgages
Primett Property Management Limited	Provision of property management services
Exeter Trust Financial Services Limited*	Provision of asset backed lending

*wholly owned subsidiary undertaking of Exeter Trust Limited

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

30. PENSION SCHEME

The Company participated in the Sun Life Assurance Company of Canada UK 1988 Employee Benefit Scheme (the SLOC Scheme) until 30 November 2001. From that date the Company participated in the Portman Building Society Employee Benefit Scheme (the PBS Scheme). Both schemes are 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 three plans as described below:

Final Salary Plan

This is a funded non-contributory defined benefit scheme which is now closed to new employees.

As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme has been accounted for, in the financial statements as if the scheme was a defined contribution scheme.

The plan is subject to a formal valuation of the assets and liabilities every three years which is conducted by an independent actuary appointed by the scheme trustees. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

The latest full actuarial valuation was carried out at 6 April 2000 and was updated for the FRS 17 purposes to 31 December 2002 by a qualified independent actuary. This showed the scheme to be in deficit at 31 December 2002. It has been agreed that an employer contribution rate of 17.6% pensionable pay will apply in future years.

Details of the latest actuarial valuation can be found in the financial statements of Portman Building Society, the immediate parent undertaking.

The amount of pension cost charged by the PBS Scheme in respect of this plan in the year was £577,924. This does not include an allowance for amortisation of experience surpluses as these are considered immaterial.

Money Purchase Plan

This is a defined contribution scheme.

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

The amount of pension cost charged by the PBS Scheme in respect of this plan in the current year was £51,649.

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.

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

31. OTHER COMMITMENTS

Mortgage advances on offer subject to acceptance and contract at 31 December 2002 for the Group and Company amounted to £162.3 million (2001 - £52.9 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>2002</u> <u>£000</u>	<u>2001</u> <u>£000</u>
Operating leases which expire		
- within one year	32	48
- between two years and five years	472	478
	<u>504</u>	<u>526</u>

32. FINANCIAL INSTRUMENTS

The Bank is a retailer of financial instruments in the form of mortgages and savings products. The Group uses wholesale financial instruments to invest in liquid assets, raise wholesale funding and to manage the risks arising from its operations. Derivative financial instruments ('derivatives') are used by the Bank to reduce the risk of loss arising from changes in interest rates or other factors which affect the business.

Derivatives are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The Assets and Liabilities Committee (ALCO) is responsible for managing the financial risk of the Group and the minutes of each ALCO meeting are reviewed by the Board of Directors at its subsequent board meeting. The ALCO is responsible for overseeing the use of derivatives.

Type of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps (IRS), and forward rate agreements (FRA), which are used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. Alternatively, such risks may be managed using on balance sheet instruments as part of an integrated approach to risk management.

Activity	Risk	Type of hedge
Management of the investment of reserves and other non-interest bearing liabilities.	Sensitivity to changes in interest rates.	IRS
Fixed rate savings products and fixed rate funding.	Sensitivity to falls in interest rates.	IRS which receive fixed interest rates and pay variable interest rates; FRA
Fixed rate mortgage lending and other fixed rate asset investments.	Sensitivity to increases in interest rates.	IRS which pay fixed interest rates and receive variable interest rates; FRA

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

32. FINANCIAL INSTRUMENTS (continued)

The accounting policies for derivatives are described in the Statement of Accounting Policies on page 10.

The table below analyses derivatives used by type of contract and maturity. Nominal principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflecting the Group's exposure, should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account the extent of potential future exposures and the nature of the counterparty.

	Nominal Principal Amount	Credit Risk weighted amount	Replacement cost	Nominal principal amount	Credit Risk weighted amount	Replacement cost
	2002 £m	2002 £m	2002 £m	2001 £m	2001 £m	2001 £m
Interest rate contracts:						
Interest rate swaps	377.2	0.4	-	556.2	1.9	6.8
Under one year	45.0	-	-	146.5	0.4	2.0
Between one and five years	298.4	0.3	-	366.0	1.4	4.8
Over five years	33.8	0.1	-	43.7	0.1	-
	377.2	0.4	-	556.2	1.9	6.8

All of the Group's derivatives activity is contracted with OECD financial institutions.

In addition to credit risk, the financial risks faced by the Group include liquidity risk and interest rate risk.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved by maintaining a prudent level of liquid assets and wholesale funding, and through managing the growth of the business.

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

32. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The net interest income of all financial assets and liabilities and the market value of the Group's debt securities/financial instruments are exposed to movements in interest rates. This exposure is managed on a continuous basis within limits set by the Board using a combination of on and off balance sheet instruments.

The interest rate sensitivity of the Group after taking into account the various derivatives entered into by the Group was:-

	Total	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
At 31 December 2002							
ASSETS							
Cash and balances at central banks	728	728	-	-	-	-	-
Loan and advances to customers	1,328,037	909,653	31,141	79,008	308,235	-	-
Other assets	14,649	-	-	-	-	-	14,649
Total assets	1,343,414	910,381	31,141	79,008	308,235	-	14,649
LIABILITIES							
Deposits by banks	1,177,848	1,173,348	4,500	-	-	-	-
Customer accounts	69,266	32,285	28,878	706	3,463	1,750	2,184
Other liabilities	13,332	-	-	-	-	-	13,332
Subordinated liabilities	13,000	13,000	-	-	-	-	-
Shareholder's funds	69,968	-	-	-	-	-	69,968
Total liabilities	1,343,414	1,218,633	33,378	706	3,463	1,750	85,484
Off balance sheet items	-	343,350	(25,000)	(20,000)	(298,350)	-	-
Interest rate sensitivity gap		35,098	(27,237)	58,302	6,422	(1,750)	(70,835)
Cumulative gap		35,098	7,861	66,163	72,585	70,835	-

Sun Bank plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER

32. FINANCIAL INSTRUMENTS (continued)

At 31 December 2001 Restated	Total Restated £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
ASSETS							
Cash and balances at central banks	657	657	-	-	-	-	-
Loans and advances to banks	500	500	-	-	-	-	-
Loan and advances to customers	1,120,296	618,600	47,971	65,052	387,946	727	-
Negative goodwill	(173)	-	-	-	-	-	(173)
Other assets	15,051	-	-	-	-	-	15,051
Total assets	1,136,331	619,757	47,971	65,052	387,946	727	14,878
LIABILITIES							
Deposits by banks	120,177	100,336	18,800	1,041	-	-	-
Customer accounts	924,119	563,399	78,026	90,365	173,501	1,750	17,078
Other liabilities	16,365	-	-	-	-	-	16,365
Subordinated liabilities	20,000	20,000	-	-	-	-	-
Shareholder's funds	55,670	-	-	-	-	-	55,670
Total liabilities	1,136,331	683,735	96,826	91,406	173,501	1,750	89,113
Off balance sheet items	-	226,000	8,000	(20,000)	(214,000)	-	-
Interest rate sensitivity gap		162,022	(40,855)	(46,354)	445	(1,023)	(74,235)
Cumulative gap		162,022	121,167	74,813	75,258	74,235	-

Other assets include deferred tax, other assets, prepayments and accrued income.

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

	<u>2002</u> £000	<u>2001</u> £000
For the Company and the Group:		
Interest rate contracts:		
Contract amount	377,150	556,200
Positive mark to market	-	6,773
Negative mark to market	2,604	4,343