

# The Abbey National Group

## Abbey National plc

*(incorporated in England with limited liability registered number 2294747)*

**£300,000,000**

### **7.037% Step-up Callable Perpetual Reserve Capital Instruments**

**Issue Price: 100 per cent.**

The £300,000,000 7.037 per cent. Step-up Callable Perpetual Reserve Capital Instruments (the "RCIs") of Abbey National plc ("Abbey National" or the "Issuer") will bear interest from (and including) 14 February 2001 to (but excluding) 14 February 2026 at a rate of 7.037 per cent. per annum, payable annually in arrear on 14 February in each year starting 14 February 2002. Thereafter, the RCIs will bear interest at a rate, reset every five years, of 3.75 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable annually in arrear on 14 February in each year, all as more particularly described in "Terms and Conditions of the RCIs-5. Coupon Payments". Payments (which term, as defined herein, does not include principal) may be deferred as described in "Terms and Conditions of the RCIs-4. Deferrals", but the Issuer may not declare or pay dividends on any Junior Share Capital (as defined herein) whilst any Payments are deferred.

The RCIs are redeemable on 14 February 2026 or on each Coupon Payment Date (as defined herein) thereafter. In addition, upon the occurrence of certain tax or regulatory events, the RCIs may be exchanged or their terms varied so that they become Upper Tier 2 Securities (as defined herein), provided that if such tax or regulatory events do or would persist after such exchange or variation or certain other provisions apply, the RCIs may be redeemed at any time, as more particularly described in "Terms and Conditions of the RCIs-7. Exchange, Variation or Redemption".

Under existing Financial Services Authority ("FSA") requirements, the Issuer may not redeem or purchase any RCIs unless the FSA has given its prior consent.

The RCIs will be unsecured securities of the Issuer and will be subordinated to the claims of Senior Creditors (as defined herein) in that no payment of principal or interest in respect of the RCIs may be made unless the Issuer is solvent and is able to make such payment and remain solvent immediately thereafter. In the event of the winding-up of the Issuer, the RCI Holders (as defined herein) will, for the purpose only of calculating the amounts payable in respect of each RCI, be treated as if they were the holders of preference shares ranking *pari passu* with the holders of that class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of all other classes of the Issuer's issued shares on the day immediately prior to the commencement of the winding-up. See "Terms and Conditions of the RCIs - 3. Winding-up".

**For a description of certain matters that prospective investors should consider, see "Investment Considerations".**

Application has been made to list the RCIs on the Luxembourg Stock Exchange.

The RCIs have been assigned a rating of A+ by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and a rating of aa2 by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. See "The Abbey National Group-Recent Developments".

**Barclays Capital**

**Schroder Salomon Smith Barney**

**UBS Warburg**

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with the issue and sale of the RCLs, no person is authorised to give any information or to make any representation not contained in this document and if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Managers (as defined in "Subscription and Sale" below) or the Trustee.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular should purchase any of the RCLs. Each investor contemplating purchasing RCLs should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates.

The distribution of this document and the offering or sale of the RCLs in certain jurisdictions may be restricted by law. The Issuer and the Managers do not represent that this document may be lawfully distributed, or that the RCLs may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which would permit a public offering of the RCLs or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no RCLs may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or the RCLs may come must inform themselves about, and observe, any such restrictions. See "Subscription and Sale" below for a description, *inter alia*, of certain restrictions on offers, sales and deliveries of the RCLs. Neither the delivery of this Offering Circular nor any sale hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Issuer or the Abbey National Group since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In connection with this issue, Barclays Bank PLC may over-allot or effect transactions which stabilise or maintain the market prices of the RCLs at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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The RCLs have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and comprise RCLs in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the RCLs may not be sold or delivered, directly or indirectly, within the United States or to U.S. persons.

In this document all references to "£" are to the lawful currency from time to time of the United Kingdom.

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The Annual Report and Accounts of the Issuer for the years ended 31 December 1999 and 1998 (prepared on a consolidated basis) and the interim financial statements for the six months ended 30 June 2000 (prepared on a consolidated basis) are incorporated into this Offering Circular by reference. Copies may be obtained free of charge at the specified office of each of the Paying Agents as set out in "General Information" below.

## SUMMARY

*The following summary refers to certain provisions of the Terms and Conditions of the RCIs and the Trust Deed and is qualified by the more detailed information contained elsewhere in this document. Defined terms used herein have the meaning given to them in "Terms and Conditions of the RCIs".*

<b>Issuer</b>	Abbey National plc
<b>Trustee</b>	The Bank of New York
<b>Issue size</b>	£300,000,000
<b>Redemption</b>	The RCIs are perpetual securities and have no maturity date. However, the RCIs are redeemable in whole but not in part at the option of the Issuer, subject to the prior consent of the FSA and to the Solvency Condition having been met within the previous six months, at their principal amount together with any Outstanding Payments on 14 February 2026 or any Coupon Payment Date thereafter.
<b>Interest</b>	The RCIs bear interest at a rate of 7.037 per cent. per annum from (and including) 14 February 2001 to (but excluding) 14 February 2026 and thereafter at a rate per annum reset every five years of 3.75 per cent. per annum above the gross redemption yield on a specified United Kingdom government security.
<b>Coupon Payment Dates</b>	Subject as described below, Coupon Payments will be payable on 14 February in each year from (and including) 14 February 2002.
<b>Subordination</b>	The rights and claims of the RCI Holders are subordinated to the claims of Senior Creditors. Upon any winding-up of the Issuer, the holder of each RCI will rank <i>pari passu</i> with the holders of the most senior class or classes of preference shares (if any) of the Issuer then in issue and in priority to all other shareholders but will rank junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding up of the Issuer is determined.
<b>Exceptional deferral of payments</b>	If the Issuer determines, on the 20th business day prior to the date on which any Payment (which term does not include any payment of principal) would, in the absence of deferral in accordance with Condition 4, be due and payable that it is, or payment of the relevant Payment will result in the Issuer being, in non-compliance with applicable Capital Regulations, the Issuer may, subject to the dividend restriction described below, elect to defer such Payment. Such exceptionally deferred Payment must, unless the Issuer elects to defer such Payment pursuant to its general right to defer referred to below, be satisfied on the next Coupon Payment Date following the 19th business day after the Issuer determines that it no longer is, and payment of such Payment will not result in it being, in non-compliance with such applicable Capital Regulations. No interest will accrue on such exceptionally deferred Payment.
<b>General deferral of Payments</b>	Subject to the dividend restriction described below, the Issuer may elect to defer any Payment (which term does not include principal) on the RCIs for any period of time. However, the deferred payment will bear interest at 2 per cent. per annum above the then current rate of interest on the RCIs.

<b>Dividend restriction during period of deferral</b>	If the Issuer defers a Payment for any reason as described above then, while any Payment is so deferred, it may not declare or pay a dividend on any Junior Share Capital.
<b>Alternative coupon satisfaction mechanism</b>	Investors will always receive payments made in respect of RCIs in cash. However, if the Issuer defers a Payment it must, or if and to the extent the Issuer so elects at any time it may, satisfy its obligation to make any Payment (which term does not include any payment of principal) to RCI Holders by issuing its Ordinary Shares to the Trustee or its agent which, when sold, will provide a cash amount which the Principal Paying Agent, on behalf of the Trustee, will pay to the RCI Holders in respect of the relevant Payment. The Calculation Agent will calculate in advance the number of Ordinary Shares to be issued in order to enable the Trustee or its agent to raise the full amount of money due on the relevant payment date to RCI Holders.
<b>Insufficiency</b>	The Issuer is required, as more particularly described in Conditions 6(d) and 9 of the Terms and Conditions of the RCIs, to keep available for issue enough Ordinary Shares as it reasonably considers would be required to satisfy from time to time the next Coupon Payment using the alternative coupon satisfaction mechanism described above.
<b>Market Disruption Event</b>	If, in the opinion of the Issuer, a Market Disruption Event exists on or after the 15th business day preceding any date upon which the Issuer is due to satisfy a payment using the alternative coupon satisfaction mechanism, the payment to RCI Holders may be deferred until the Market Disruption Event no longer exists.
<b>Suspension</b>	If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the company which, immediately prior to such event was the Ultimate Owner, ceases to be the Ultimate Owner, then, unless a Permitted Restructuring Arrangement shall be put in place, such amendments to the documentation relating to the RCIs as determined by an independent investment bank to be appropriate in order to preserve substantially the economic effect, for the RCI Holders, of a holding of the RCIs, prior to the Suspension will be made by the Issuer and the Trustee and pending such amendments the Issuer will be unable to satisfy Payments using the alternative coupon satisfaction mechanism. If the investment bank is unable to determine appropriate amendments, as notified to the Issuer and the Trustee, the RCIs will (subject to the prior consent of the FSA) be redeemed at the Suspension Redemption Price. See "Terms and Conditions of the RCIs- 8. Payments-(d) Suspension".
<b>Additional amounts</b>	The Issuer will pay additional amounts to RCI Holders to gross up payments upon the imposition of UK withholding tax, subject to customary exceptions.
<b>Exchange, variation or redemption for taxation reasons</b>	Upon the occurrence of certain changes in the treatment of the RCIs for taxation purposes, the Issuer may, subject to the prior consent of the FSA, exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities or, if such change in tax treatment also affects or would affect the Upper Tier 2 Securities or certain other provisions apply and provided that the Solvency Condition has been met within the previous six months, redeem all, but not some only, of the RCIs at their principal amount together with any Outstanding Payments.

<b>Exchange, variation or redemption for regulatory reasons</b>	If at any time the RCIs cease to qualify as Tier 1 Capital, the Issuer may, subject to the prior consent of the FSA, exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities or, if such exchanged or varied securities do or would not qualify as Upper Tier 2 Capital or certain other provisions apply and provided that the Solvency Condition has been met within the previous six months, redeem all, but not some only, of the RCIs at their principal amount together with any Outstanding Payments.
<b>Remedy for non-payment</b>	The sole remedy against the Issuer available to the Trustee or any RCI Holder for recovery of amounts owing in respect of any Payment or principal in respect of the RCIs will be the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up.
<b>Form</b>	Bearer. The RCIs will be represented initially by the Temporary Global RCI, without Coupons, which will be deposited outside the United States with a common depositary for Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") on or about 14 February 2001. The Temporary Global RCI will be exchangeable for interests in the Permanent Global RCI, without Coupons, on or after a date which is expected to be 26 March 2001 upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global RCI. Save in limited circumstances, RCIs in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global RCI.
<b>Listing</b>	Luxembourg.
<b>Governing law</b>	English.
<b>Rating</b>	The RCIs have been assigned a A+ rating by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and a aa2 rating by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. See "The Abbey National Group-Recent Developments".

## INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this document.

### **Deferral**

The Issuer may elect to defer any Payment (such term does not include principal) on the RCI's for any period of time, as more particularly described in "Terms and Conditions of the RCI's-4. Deferrals". Any such deferred payment will, unless it is an exceptional deferral as described under "- 4(a) Exceptional Deferral of Payments -", bear interest at 2 per cent. per annum above the rate applicable to the RCI's and during the period of such deferral the Issuer may not declare or pay a dividend on any Junior Share Capital.

### **Perpetual securities**

The Issuer is under no obligation to redeem the RCI's at any time (save in the particular circumstances referred to in "Terms and Conditions of the RCI's-8. Payments-(d) Suspension") and the RCI Holders have no right to call for their redemption.

### **Redemption risk**

Upon the occurrence of certain specified tax and regulatory events, the RCI's may be exchanged or their terms varied so that they become Upper Tier 2 Securities or, if any such specified tax event applies or would apply to the Upper Tier 2 Securities or certain other provisions, including regulatory provisions, apply, the RCI's may, subject as provided in "Terms and Conditions of the RCI's - 7. Exchange, Variation or Redemption - (c) Exchange, Variation or Redemption due to Taxation and (d) Exchange, Variation or Redemption for Regulatory Purposes", be redeemed at their principal amount together with any Outstanding Payments.

### **No limitation on issuing senior or *pari passu* securities**

There is no restriction on the amount of securities which the Issuer may issue which ranks senior to or *pari passu* with the RCI's. The issue of any such securities may reduce the amount recoverable by RCI Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of Payments under the RCI's.

### **Availability of shares**

If the Issuer is to make a payment using the alternative coupon satisfaction mechanism and insufficient ordinary shares in the Issuer are available, then the Issuer's payment obligation shall be suspended to the extent of such insufficiency and, except in the case of Exceptionally Deferred Coupon Payments, shall bear interest at 2 per cent. per annum above the rate applicable to the RCI's, until such time as sufficient shares are available to satisfy all or part of the suspended payment obligation, as more particularly described in "Terms and Conditions of the RCI's-6. Alternative Coupon Satisfaction Mechanism-(d) Insufficiency".

### **Market Disruption Event**

If, following a decision by the Issuer to satisfy a payment using the alternative coupon satisfaction mechanism, a Market Disruption Event exists in the opinion of the Issuer, the payment to RCI Holders may be deferred until the cessation of such market disruption, as more particularly described in "Terms and Conditions of the RCI's-6. Alternative Coupon Satisfaction Mechanism-(e) Market Disruption". Any such deferred payments shall bear interest at the rate applicable to the RCI's if the Market Disruption Event continues for 14 days or more.

**Restricted remedy for non-payment**

In accordance with current FSA requirements for subordinated capital, the sole remedy against the Issuer available to the Trustee or any RCI Holder for recovery of amounts owing in respect of any Payment or principal in respect of the RCIs will be the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up.

**Absence of prior public markets**

The RCIs constitute a new issue of securities by Abbey National. Prior to this issue, there will have been no public market for the RCIs. Although application has been made for the RCIs to be listed on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the RCIs will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the RCIs can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Abbey National Group and other factors that generally influence the market prices of securities.



## TERMS AND CONDITIONS OF THE RCIs

*The following, subject to alteration, are the terms and conditions of the RCIs which will be endorsed on each RCI in definitive form (if issued).*

The RCIs are constituted by the Trust Deed. The issue of the RCIs was authorised pursuant to a resolution of the Board of Directors of the Issuer (the "Board") passed on 23 January 2001 and a resolution of a committee of the Board passed on 13 February 2001. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement are available for inspection during normal business hours by the RCI Holders and the Couponholders at the principal office of the Trustee, being at 14 February 2001 at 101 Barclay Street, New York, NY 10286, United States of America, and at the specified office of each of the Paying Agents. The RCI Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement applicable to them.

### **1 Form, Denomination and Title**

#### **(a) Form and Denomination**

The RCIs are serially numbered and in bearer form in the Authorised Denominations each with Coupons and one Talon attached on issue.

#### **(b) Title**

Title to the RCIs, Coupons and Talons will pass by delivery. The bearer of any RCI will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the RCI Holder.

### **2 Status and Subordination**

#### **(a) Status**

The RCIs constitute direct, unsecured, subordinated securities of the Issuer and rank *pari passu* without any preference among themselves.

#### **(b) Subordination**

- (i) **Condition of Payment:** The rights and claims of the RCI Holders and the Couponholders are subordinated to the claims of Senior Creditors, in that payments in respect of the RCIs (including the issue of Ordinary Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment (or issuing such Ordinary Shares) by the Issuer and in that no principal or Payments shall be due and payable in respect of the RCIs (including the issue of Ordinary Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment (or make such issue of Ordinary Shares) and still be solvent immediately thereafter. In these Terms and Conditions the Issuer shall be considered to be solvent if (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been satisfied.
- (ii) **Winding-Up Claims:** Amounts representing any payments of principal or interest in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable ("Winding-Up Claims") will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3 and on any redemption (subject to Condition 2(b)(i)) pursuant to Condition 7(b), 7(c), 7(d) or 8(d) provided that in the event that prior to any winding-up of the Issuer, the Issuer shall again be solvent and would be solvent immediately after the making of such payment of Winding-Up Claims, then the Issuer shall promptly notify the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent of such fact and the

Winding-Up Claims shall, subject to Condition 2(b)(i), be due and payable on the 16th business day after the Issuer shall have given such notice. A Winding-Up Claim shall not bear interest unless the Issuer shall be solvent once again, in which case any such Winding-Up Claims shall bear interest as provided in Condition 6(e). In the event that the Issuer shall be so solvent once again, the Issuer may not declare or pay a dividend on any Junior Share Capital from the date that the Issuer is so solvent again until the relevant payment date.

- (iii) Set-off: Subject to applicable law, no RCI Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the RCIs or the Coupons and each RCI Holder and Couponholder shall, by virtue of his holding of any RCI or Coupon, be deemed to have waived all such rights of set-off, compensation or retention.

*For the avoidance of doubt, if the Issuer would otherwise not be solvent for the purposes of the above Condition 2(b), any sums which would otherwise be payable in respect of the RCIs will be available to meet the losses of the Issuer.*

### **3 Winding-up**

If at any time an order is made, or an effective resolution is passed, for the winding-up in England of the Issuer (except in any such case a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer (as defined in the Trust Deed), the terms of which reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), there shall be payable by the Issuer in respect of each RCI and Coupon (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such RCI and Coupon if, on the day prior to the commencement of the winding-up and thereafter, such RCI Holder were the holder of one of a class of preference shares in the capital of the Issuer having an equal right to a return of assets in the winding up to and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over and so rank ahead of the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up of the Issuer is determined and senior to all other classes of issued shares (save as aforesaid) for the time being in the capital of the Issuer on the assumption that the amount that such RCI Holder was entitled to receive in respect of such preference share on a return of assets in such winding-up, were an amount equal to the principal amount of the relevant RCI and any other Payments which are Outstanding together with, to the extent not otherwise included within the foregoing, its *pro rata* share of any Winding-Up Claims.

### **4 Deferrals**

The Issuer must make each Coupon Payment on the relevant Coupon Payment Date subject to and in accordance with these Terms and Conditions. However, the Issuer may defer a Coupon Payment and any other Payment in the following circumstances.

#### **(a) Exceptional Deferral of Payments**

- (i) If on the 20th business day preceding the date on which any Payment would, in the absence of deferral in accordance with this Condition 4, be due and payable, the Exceptional Deferral Condition is satisfied, any such Payment may (subject to Condition 6(a)) be deferred by the Issuer giving notice to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to such date. If, following the deferral of a Payment by the Issuer under this Condition 4(a)(i) the Exceptional Deferral Condition ceases to be satisfied on the 20th business day preceding a Coupon Payment Date, then the Issuer shall on giving not less than 16 business days

notice to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent, satisfy such Payment on the Relevant Deferred Coupon Payment Date unless (i) it has previously elected to satisfy such Payment earlier (provided that it may only satisfy such Payment earlier if, at the time of satisfying such Payment, the Exceptional Deferral Condition fails to be satisfied) by delivering a notice to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Exceptionally Deferred Coupon Payment Date or (ii) it elects to defer such Payment under Condition 4(b).

- (ii) If the Issuer has given such first-mentioned notice then: (1) the Issuer may not declare or pay a dividend on any Junior Share Capital from the date of the first notice until such time as that Exceptionally Deferred Coupon Payment is satisfied; and (2) no amount will be payable by way of interest on any such deferred Payment, save as provided in Condition 6(e). Any such deferred Payment shall be satisfied only in accordance with Condition 6.

**(b) Election to defer Payment**

- (i) The Issuer may, in respect of any Payment which would, in the absence of deferral in accordance with this Condition 4, be due and payable, by giving a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders not less than 16 business days prior to the relevant due date, defer such Payment. The Issuer may then satisfy any such Payment at any time pursuant to Condition 6 (and only pursuant to Condition 6) upon delivery of a notice to the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Coupon Satisfaction Date.
- (ii) If the Issuer has given such first-mentioned notice then: (1) the Issuer may not declare or pay a dividend on any Junior Share Capital from the date of such notice until such time as that Deferred Coupon Payment (and any other Deferred Coupon Payment or Accrued Coupon Payment) is satisfied; and (2) each Payment which the Issuer defers pursuant to the giving of such a notice shall bear interest at a rate equal to the aggregate of the Coupon Rate and 2 per cent. per annum from (and including) the date of deferral of such Payment pursuant to this Condition 4(b) to (but excluding) the relevant Coupon Satisfaction Date.

**5 Coupon Payments**

**(a) Coupon Payment Dates**

The RCIs bear interest at the Coupon Rate from (and including) the Issue Date and such interest will (subject to Conditions 2(b)(i), 2(b)(ii), 4(a), 4(b), 6(d), 6(e) and 8(d)) be payable on each Coupon Payment Date. Each RCI will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition (both before and after judgment) as provided in the Trust Deed.

**(b) Coupon Rate**

- (i) The Coupon Rate in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date is 7.037 per cent. per annum.
- (ii) The Coupon Rate in respect of each Reset Period shall be the aggregate of 3.75 per cent. per annum and the Five Year Benchmark Gilt-Rate in respect of such Reset Period as determined by the Calculation Agent.

**(c) Determination and Publication of Coupon Rate and Coupon Amounts**

The Principal Paying Agent will, upon the determination of each Coupon Rate pursuant to Condition 5(b)(ii), calculate the Coupon Amount in respect of each Authorised Denomination and cause the Coupon Rate and each Coupon Amount payable in respect of a Coupon Period to be notified as soon as possible after their determination but in no event later than the fourth business day thereafter, to the Trustee, the Issuer, the Calculation Agent and the Luxembourg Stock Exchange and the RCI Holders.

Each Coupon Amount in respect of any Coupon Period shall be calculated by applying the Coupon Rate to the principal amount of the RCI of the relevant Authorised Denomination and, in respect of any period of less than a complete Coupon Period, such Coupon Amount shall be calculated on the basis of the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days from and including the previous Coupon Payment Date (or, if none, the Issue Date) to but excluding the next following Coupon Payment Date.

**(d) Determination or Calculation by Trustee**

If the Principal Paying Agent or, as the case may be, the Calculation Agent does not at any time for any reason so determine the Coupon Rate or calculate each Coupon Amount in accordance with Conditions 5(b)(ii) and 5(c), the Trustee or an agent on its behalf shall do so and such determination or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent. In doing so, the Trustee or such agent shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it or such agent can do so, and in all other respects it or such agent shall do so in such manner as it shall deem fair and reasonable in all the circumstances. All determinations or calculations made or obtained for the purposes of the provisions of this Condition 5(d) by the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Paying Agents and all RCI Holders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the RCI Holders or the Couponholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**6 Alternative Coupon Satisfaction Mechanism**

**(a) Alternative Coupon Satisfaction Mechanism**

The Issuer may elect to satisfy any Payment in full or in part through the issue of Ordinary Shares to the Trustee in accordance with this Condition 6, in which case it shall notify the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Coupon Payment Date. In the absence of or save to the extent of such election and issue, subject to Conditions 4(a) and 4(b), Payments must be satisfied in accordance with Condition 8(a), provided that if under Condition 4(a) an Exceptional Deferral Condition is satisfied the relevant Payment must be deferred unless the prior consent of the Financial Services Authority is obtained for the making of the relevant Payment. In the case of satisfaction of a Payment in part, the amount payable in respect of each Coupon to which such Payment relates, shall be reduced on a *pro rata* basis by the amount of such part payment made.

**(b) Issue of shares**

If any Payment is to be satisfied in full or in part through the issue of Ordinary Shares to the Trustee then, subject to Conditions 6(d) and 6(e):

- (i) by close of business on or before the 7th business day prior to the relevant Coupon Payment Date, Relevant Deferred Coupon Payment Date, Coupon Satisfaction Date or Exceptionally Deferred Coupon Payment Date the Issuer will issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Ordinary Shares (the "Payment Ordinary Shares") as, in the determination of the Calculation Agent, have a market value of not less than the relevant Payment to be satisfied in accordance with this Condition 6; and
- (ii) the Trustee will use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the 6th business day prior to the date on which the relevant Payment is due and the Calculation Agent has agreed to use

reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If necessary, the Calculation Agent has further agreed to exchange, as agent of the Trustee, the proceeds of such sale into sterling at prevailing market exchange rates and deliver such exchanged proceeds to, or hold such exchanged proceeds to the order of, the Trustee who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

(c) *Issue satisfies payment*

Where the Issuer either elects or is required to make a Payment hereunder by issuing Ordinary Shares to the Trustee and issues such shares, such issue shall satisfy the relevant Payment or, as the case may be, in the circumstances referred to in (d) below, the relevant part of such Payment if made in accordance with this Condition 6. The proceeds of sale of Ordinary Shares shall be paid by the Principal Paying Agent to the Couponholders in respect of the relevant Payment.

(d) *Insufficiency*

If the Issuer is to satisfy all or part of a Payment in accordance with this Condition 6 and the Issuer does not, on the date when the number of such Ordinary Shares required to be issued is determined in accordance with this Condition 6, have sufficient number of Ordinary Shares available for issue, then the Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders that all or part, as the case may be, of the relevant Payment cannot be so satisfied due to such insufficiency, in which case the same shall be satisfied following the date of the next annual general meeting or extraordinary general meeting of shareholders of the Issuer at which a resolution is passed authorising a sufficient number of Ordinary Shares to satisfy all or such part of the relevant Payment provided that if the number of Ordinary Shares authorised to be issued at any such meeting is insufficient to satisfy all or such part of the relevant Payment then those Ordinary Shares so issued shall be applied by the Issuer in part satisfaction of all or such part of the relevant Payment. Following the passage of any such resolution, the Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders of the date upon which the relevant Payment or, as the case may be, the part thereof is to be made in accordance herewith on not less than 16 business days' notice. The relevant Payment or, as the case may be, the part thereof which is not so satisfied shall, unless it is an Exceptionally Deferred Coupon Payment, continue to accrue interest at a rate determined in accordance with Condition 4(b)(ii) from (and including) the date on which Payment would otherwise have been due to (but excluding) the date on which such Payment or part thereof is satisfied. If the Issuer does not, within 6 months of giving the above first-mentioned notice, hold an annual general meeting at which a resolution to make a sufficient number of Ordinary Shares so available is proposed, the Trustee shall by notice require the Issuer to convene an extraordinary general meeting at which such a resolution shall be proposed on a date falling within 10 weeks of such notice from the Trustee. In the event that any such resolution proposed at any such annual general meeting or extraordinary general meeting is rejected, such resolution will then be proposed at the next following annual general meeting of the Issuer and, if at such annual general meeting such proposal is rejected again, then, in the case of the Issuer having elected to satisfy any Payment in full or in part through the issue of Ordinary Shares pursuant to Condition 6(c) above, from the date of such second rejection the Issuer may not declare or pay a dividend on any Junior Share Capital until such time as such resolution has been passed by the shareholders of the Issuer or there are otherwise a sufficient number of Ordinary Shares available for issue.

(e) *Market Disruption*

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th business day preceding any date upon which the Issuer is due to make or satisfy a payment in accordance with this Condition 6, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and

the RCI Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant Payment may be deferred until such time as the Market Disruption Event no longer exists.

Any such deferred payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred payment unless, as a consequence of the existence of a Market Disruption Event, the Issuer does not make the relevant Payment for a period of 14 days or more after the due date therefor, in which case interest shall accrue on such deferred payment from (and including) the date on which the relevant payment was due to be made to (but excluding) the date on which such payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with Condition 6 and as soon as reasonably practicable after the relevant deferred payment is made. No liability shall attach to the Trustee or its agents if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

## **7 Exchange, Variation or Redemption**

### **(a) No Fixed Redemption Date**

The RCIs are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 12) only have the right to repay them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

Any redemption or purchase of the RCIs is subject to the prior consent of the Financial Services Authority.

### **(b) Issuer's Call Option**

Provided the Auditors have reported to the Trustee within the previous six months that the Solvency Condition is met, the Issuer may, by giving not less than 30 nor more than 60 days' notice to the RCI Holders in accordance with Condition 16 and to the Principal Paying Agent and the Trustee, which notice shall be irrevocable, elect to redeem all, but not some only, of the RCIs on the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any Outstanding Payments.

### **(c) Exchange, Variation or Redemption due to Taxation**

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next due date for a Payment:

- (i) the Issuer would be unable to make such payment without being required to pay additional amounts as provided in Condition 11; or
- (ii) payments of amounts in respect of interest on the RCIs including, for the avoidance of doubt, the issue of Ordinary Shares pursuant to Condition 6, may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published interpretation of such laws, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such law or regulations that differs from the previously generally accepted position

in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the RCIs, which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by Act of Parliament or made by Statutory Instrument, on or after 14 February 2001, there is more than an insubstantial risk that the Issuer will not obtain relief for the purposes of United Kingdom corporation tax for the next following payment of interest including, for the avoidance of doubt, where the payment of interest is to be satisfied by the issue of Ordinary Shares pursuant to Condition 6 or, as a result of the RCIs being in issue, the Issuer may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate,

then the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the RCI Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable) exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments.

If: (a) the consent of the Financial Services Authority is not given or, (b) the RCIs, as so exchanged or varied for or into Upper Tier 2 Securities, do not (or would not, if so exchanged or varied) qualify as Upper Tier 2 Capital or, (c) any of the conditions listed in paragraphs (i) to (iii) above apply or continue to apply to Upper Tier 2 Securities for or into which the RCIs have been exchanged or varied or, (d) if the Issuer shows to the satisfaction of the Trustee that any of the conditions listed in paragraphs (i) to (iii) above would apply if such exchange or variation were to take place, the Issuer may, provided that the Solvency Condition is met within the previous six months, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable), redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the RCIs or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments. The Trustee shall use its reasonable endeavours to assist the Issuer in the exchange or variation of the RCIs for or into Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the RCIs are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the RCIs as provided above. Prior to the publication of any notice of exchange, variation or redemption pursuant to this Condition 7(c) the Issuer shall deliver to the Trustee a certificate signed by a Director of the Issuer stating that the relevant requirement or circumstance referred to in paragraphs (i), (ii) or (iii) above is satisfied or would be satisfied were such exchange or variation to take place and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the RCI Holders. Upon expiry of such notice the Issuer shall either redeem, vary or exchange the RCIs, as the case may be.

*(d) Exchange, Variation or Redemption for Regulatory Purposes*

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that the Financial Services Authority has determined that the RCIs no longer qualify as Tier 1 Capital then the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the RCI Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable) exchange the RCIs for, or vary the terms of the

RCIs so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments.

If: (a) the consent of the Financial Services Authority is not given or, (b) the RCIs, as so exchanged or varied for or into Upper Tier 2 Securities, do not (or would not, if so exchanged or varied) qualify as Upper Tier 2 Capital or, (c) any of the conditions listed in paragraphs (c)(i), (ii) and (iii) above apply, or would apply, to such Upper Tier 2 Securities, the Issuer may, provided that the Solvency Condition is met within the previous six months, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable), redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the RCIs or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments. The Trustee shall use its reasonable endeavours to assist the Issuer in the exchange or variation of the RCIs for or into Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the RCIs are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the RCIs as provided above. Upon the expiry of such notice the Issuer shall either redeem, vary or exchange the RCIs, as the case may be.

*(e) Purchases*

The Issuer or any Subsidiary may (subject to the prior consent of the Financial Services Authority and provided the Auditors have reported to the Trustee within the previous six months that the Solvency Condition is met) at any time purchase RCIs in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons (if any) appertaining thereto.

*(f) Cancellation*

All RCIs so redeemed by the Issuer and any unmatured Coupons and Talons (if any) appertaining thereto will be cancelled and may not be reissued or resold. RCIs purchased by the Issuer or any Subsidiary may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

**8 Payments**

*(a) Method of Payment*

- (i)* Payments of principal and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of RCIs or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relative RCI. Such payments will be made, at the option of the payee by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (ii)* Upon the due date for redemption of any RCI, any unexchanged Talon relating to such RCI (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such RCI (whether or not attached) shall also become void and no payment shall be made in respect of them. If any RCI is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii)* On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any RCI, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 12).



(iv) The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain (aa) a Paying Agent having a specified office outside the United Kingdom and (bb) for so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, a Paying Agent having a specified office in Luxembourg. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the RCI Holders in accordance with Condition 16.

*(b) Payments subject to Fiscal Laws*

Without prejudice to the terms of Condition 11, all payments made in accordance with these Terms and Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the RCI Holders in respect of such payments.

*(c) Payments on Payment Business Days*

An RCI or a Coupon may only be presented for payment on a day which is a Payment Business Day. No further interest or other payment will be made as a consequence of the day on which the relevant RCI or Coupon may be presented for payment under this paragraph falling after the due date.

*(d) Suspension*

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the Issuer shall as soon as practicable give notice to the Trustee, the Calculation Agent and the RCI Holders, whereupon the Issuer's right to satisfy a Payment by the method contemplated by Condition 6 shall be suspended (such event being a "Suspension"). In such event, unless a Permitted Restructuring Arrangement shall be put in place within 6 months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank appointed by the Issuer (at the Issuer's expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Issuer shall not be obliged to reduce its net assets, (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the RCIs for banking capital adequacy purposes without the prior consent of the Financial Services Authority, and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Terms and Conditions, the Trust Deed and any other relevant documents are appropriate in order to preserve substantially the economic effect, for the RCI Holders, of a holding of the RCIs prior to the Suspension. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without the consent of the RCI Holders or Couponholders, effect any necessary consequential changes to these Terms and Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer's right to satisfy a Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and each RCI shall (subject to the prior consent of the Financial Services Authority and with the prior agreement of the new Ultimate Owner) be redeemed by the Issuer, following notice to the RCI Holders by the Issuer of such redemption as soon as practicable after receipt of the consent of the Financial Services Authority, at the Suspension Redemption Price, together with any Outstanding Payments, not later than the 60th business day following the giving of

such notice by the Issuer to the RCI Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected through the issue of Ordinary Shares, such Ordinary Shares to be transferred to the new Ultimate Owner in consideration for which the new Ultimate Owner issues and transfers its ordinary shares (or share capital of an equivalent class) in accordance, *mutatis mutandis*, with Condition 6(b), (c), (d) and (e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent share capital of the new Ultimate Owner which, when sold, provide a net cash amount (converted into sterling if necessary) of not less than the redemption amount so payable by the Issuer).

## **9 Pre-emption**

The Issuer shall, from time to time, keep available for issue such number of Ordinary Shares as it reasonably considers would be required to be issued in order to satisfy the requirement to issue Payment Ordinary Shares in accordance with Condition 6 in connection with the next Coupon Payment.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer of this Condition 9, the Trustee may only require the Issuer to put before the next general meeting of the shareholders of the Issuer a resolution to remedy the breach.

The Trustee shall not be obliged to monitor compliance by the Issuer with this Condition and shall be entitled to assume, unless it has actual knowledge to the contrary, that the Issuer is complying with its obligations under this Condition.

## **10 Non-Payment when Due**

*Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings in England is limited to circumstances where payment has become due. Pursuant to Condition 2(b) no principal or Payment will be due if the Solvency Condition is not satisfied, or if the Issuer would not otherwise be solvent. Also, in the case of any Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4(a) or 4(b) or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Issuer shall not make payment in respect of the RCIs (in the case of payment of principal) for a period of 7 days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment or Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the RCIs and the Coupons and the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 10, institute proceedings for the winding-up in England of the Issuer.
- (b) Subject as provided in Condition 9, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the RCIs or the Coupons (other than for the payment of any principal or satisfaction of any Payments in respect of the RCIs or the Coupons, including any payment under Clause 2.6 of the Trust Deed) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the RCIs or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution of the RCI Holders or in writing by the holders of at least one-quarter in principal amount of the RCIs then outstanding and (ii) it shall have been indemnified to its satisfaction.

- (d) No RCI Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up in England of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the RCI Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any RCI Holder or Couponholder (i) for the recovery of amounts owing in respect of the RCIs or the Coupons (including any payment under Clause 2.6 of the Trust Deed), other than the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the RCIs or the Coupons, other than as provided in paragraph (b) above.

## **11 Taxation**

All payments by the Issuer of principal, Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments, Accrued Coupon Payments and Winding-Up Claims in respect of the RCIs will be made without withholding of or deduction for, or on any account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by RCI Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the RCIs or, as the case may be, Coupons in the absence of such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment with respect to any RCI or Coupon presented for payment:

- (a) by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such RCI or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such RCI or Coupon; or
- (b) unless it is proved to the satisfaction of the Paying Agent to whom the same is presented that the holder would not be able to avoid such withholding or deduction by satisfying any statutory requirements and/or by making a declaration of non-residence or other similar claim for exemption but, in either case, fails to do so; or
- (c) in the United Kingdom; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Terms and Conditions to principal, Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and/or Accrued Coupon Payments shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **12 Prescription**

RCIs and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of RCIs and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

### **13 Meetings of RCI Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of RCI Holders to consider any matter affecting their interests including the modification by Extraordinary Resolution (as defined in the Trust Deed) of these Terms and Conditions or other provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the RCIs for the time being outstanding, or at any adjourned such meeting one or more persons being or representing RCI Holders whatever the principal amount of the RCIs so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions (including, inter alia, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal or Coupon Payments in respect of the RCIs and reducing or cancelling the principal amount of any RCI or the Coupon Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the RCIs for the time being outstanding.

An Extraordinary Resolution passed at any meeting of RCI Holders will be binding on all RCI Holders, whether or not they are present at the meeting, and on all Couponholders.

Notwithstanding any other provision of these Terms and Conditions, the Trustee may agree, without the consent of the RCI Holders or Couponholders, to any modification (subject to certain exceptions) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any other provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the RCI Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or to comply with the mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

No modification to these Terms and Conditions or any other provisions of the Trust Deed shall become effective unless the prior consent thereto of the Financial Services Authority shall have been obtained.

Subject to the prior consent of the Financial Services Authority and as provided in the Trust Deed, the Trustee may agree with the Issuer, without the consent of the RCI Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in these Terms and Conditions of any holding company of the Issuer, any subsidiary of such holding company, any subsidiary, any successor in business of the Issuer or any subsidiary of any successor in business of the Issuer (the "Substituted Issuer") in place of the Issuer (or any previous Substituted Issuer under this Condition 13) as a new issuing party under the Trust Deed, the RCIs and the Coupons. In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions, the Trustee shall have regard to the interests of the RCI Holders as a class and the Trustee shall not have regard to the consequences of such substitution for individual RCI Holders or Couponholders resulting from in particular their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

In connection with any substitution or such exercise as aforesaid, no RCI Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Issuer or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or exercise upon any individual RCI Holders or Couponholders except to the extent already provided in Condition 11 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all RCI Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the RCI Holders in accordance with Condition 16 as soon as practicable thereafter.

#### **14 Replacement of the RCIs, Coupons and Talons**

Should any RCI, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 16) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced RCIs, Coupons or Talons must be surrendered before any replacement RCIs, Coupons or Talons will be issued.

#### **15 The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the Auditors whether or not the same are subject to any limitation on the liability of the Auditors and whether by reference to a monetary cap or otherwise.

#### **16 Notices**

Notices to RCI Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and for so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the RCI Holders in accordance with this Condition.

#### **17 Further Issues**

The Issuer shall be at liberty from time to time without the consent of the RCI Holders or the Couponholders to create and issue further RCIs ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further RCIs) and so that the same shall be consolidated and form a single series with the outstanding RCIs. Any such RCIs shall be constituted by a deed supplemental to the Trust Deed.

#### **18 Agents**

The Issuer will procure that there shall at all times be a Calculation Agent and a Principal Paying Agent so long as any RCI is outstanding. If either the Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Terms and Conditions or the Calculation Agency Agreement or the Agency Agreement, as appropriate, the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place. Neither the termination of the appointment of a Calculation Agent or the Principal Paying Agent nor the resignation of either will be effective without a successor having been appointed.

All calculations and determinations made by the Calculation Agent or the Principal Paying Agent in relation to the RCIs shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the RCI Holders and the Couponholders.

None of the Issuer, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

#### **19 Governing Law**

The Trust Deed, the RCIs, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.

## **20 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the RCIs by virtue of the Contracts (Rights of Third Parties) Act 1999.

## **21 Definitions**

In these Terms and Conditions:

"Abbey National Group" and "Group" means Abbey National plc and its Subsidiaries;

"Accrued Coupon Payment" means, as at any time, where these Terms and Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of an RCI, the amount of interest accrued thereon in accordance with Conditions 4(b), 5, 6(d) and 6(e);

"Agency Agreement" means the agency agreement dated 14 February 2001 between the Issuer, the Trustee and the Paying Agents, relating to the RCIs under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions;

"Assets" means the non-consolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingencies and for subsequent events, all in such manner as the Directors, the Auditors or the liquidator (as the case may be) may determine;

"Auditors" means Deloitte & Touche as statutory auditors to the Issuer or such other auditor to the Issuer as may be appointed from time to time;

"Authorised Denominations" means £1,000, £10,000 and £100,000;

"Benchmark Gilt" means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reference Dealers, may determine to be appropriate;

"business day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for general business in London;

"Calculation Agency Agreement" means the calculation agency agreement dated 14 February 2001 between the Issuer, the Trustee and the Calculation Agent, relating to the RCIs under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions;

"Calculation Agent" means Cazenove & Co., as calculation agent in relation to the RCIs, or its successor or successors for the time being appointed under the Calculation Agency Agreement;

"Capital Regulations" means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Issuer;

"Coupon" means an interest coupon relating to an RCI and includes, where the context so permits, a Talon;

"Coupon Amount" means (i) in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5 and (ii) for the purposes of Conditions 7(c), 7(d) and 8(d) any interest accrued from and including the preceding Coupon Payment Date (or, if none, the Issue Date) to but excluding the due date for redemption if not a Coupon Payment Date;

"Coupon Determination Date" means, in relation to each Reset Date, the fifth business day prior to such Reset Date;

"Coupon Payment" means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

"Coupon Payment Date" means 14 February in each year, starting 14 February 2002;

"Coupon Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

"Couponholder" means the bearer of any Coupon;

"Coupon Rate" has the meaning given to it in Condition 5(b);

"Coupon Satisfaction Date" means the date on which the Issuer has resolved to satisfy a Deferred Coupon Payment, as notified by the Issuer to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(b);

"dealing day" means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt or the Reference Bond (as the case may be) is at the relevant time listed) is ordinarily open for the trading of securities;

"Deferred Coupon Payment" means any Coupon Payment, or part thereof, which, pursuant to Condition 4(b), the Issuer has elected to defer and which has not been satisfied;

"Directors" means directors of Abbey National plc;

"Eligible Company" means a company incorporated in England by or on behalf of the Issuer whose ordinary shares are listed (i) on the official list of the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 and are admitted to trading on the market for listed securities of London Stock Exchange plc or (ii) on such other internationally recognised stock exchange as the Trustee may approve;

the "Exceptional Deferral Condition" will be satisfied if, in the determination of the Issuer, on the relevant date, the Issuer is, or payment of the relevant Payment will result in the Issuer being, in non-compliance with the applicable Capital Regulations;

"Exceptionally Deferred Coupon Payment" means a Coupon Payment, or part thereof, which has been deferred in accordance with Condition 4(a) and not satisfied;

"Exceptionally Deferred Coupon Payment Date" means the date on which the Issuer has resolved to satisfy an Exceptionally Deferred Coupon Payment, as notified by the Issuer to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(a);

"First Reset Date" means 14 February 2026;

"Five Year Benchmark Gilt-Rate" means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, part 1, 1978, page 18 (as amended from time to time)) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Dealers at 3.00p.m. (London time) on the relevant Coupon Determination Date on a dealing basis for settlement on the next following dealing day in London;

"holding company" has the meaning ascribed to it under Section 736 of the Companies Act 1985;

"Holding Company Shares" means ordinary shares of the New Holding Company;

"interest" shall, where appropriate, include Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and Accrued Coupon Payments;

"Issue Date" means 14 February 2001, being the date of initial issue of the RCIs;

"Issuer" means Abbey National plc;

"Junior Share Capital" means the Ordinary Shares, together with any other securities of any member of the Abbey National Group expressed to rank junior as to the right to payment to the

RCIs, whether issued directly by the Issuer or by a subsidiary undertaking benefitting from a guarantee or support agreement expressed to rank or ranking junior to the RCIs; which shall not include (i) the U.S.\$1,000,000,000 8.963% Non-Cumulative Trust Preferred Securities of Abbey National Capital Trust I or (ii) the Preference Shares or (iii) any other securities or shares issued directly by the Issuer or by a subsidiary undertaking ranking *pari passu* therewith;

"Junior Subordinated Debt" means the Issuer's outstanding £325,000,000 Ten Year Step Up Perpetual Callable Subordinated Notes, £325,000,000 Fifteen Year Step Up Perpetual Callable Subordinated Notes, £175,000,000 Twenty Year Step Up Perpetual Callable Subordinated Notes, £175,000,000 Thirty Year Step Up Perpetual Callable Subordinated Notes and euro 400,000,000 Fixed to Floating Rate Perpetual Callable Subordinated Notes and such other securities outstanding from time to time which rank *pari passu* with such securities;

"Liabilities" means the non-consolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the Directors, the Auditors or the liquidator (as the case may be) may determine;

"London Stock Exchange" means the London Stock Exchange plc;

"Market Disruption Event" means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or otherwise) or on settlement procedures for transactions in the Ordinary Shares on the London Stock Exchange if, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material in the context of the sale of the Ordinary Shares, or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Payment Ordinary Shares, or (iii) where, pursuant to these Terms and Conditions, monies are required to be converted from one currency into another currency in respect of any Payment, the occurrence of any event that makes it impracticable to effect such conversion;

"New Holding Company" means an Eligible Company that becomes the ultimate holding company of the Abbey National Group following a Permitted Restructuring;

"Ordinary Shares" means ordinary shares of the Issuer, having on the Issue Date a par value of 10 pence each;

"Outstanding", in relation to any Coupon Payment, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the conditions referred to in Condition 2(b)(i) or the deferral, postponement or suspension of such payment in accordance with any of Condition 4(a), 4(b), 6(d), 6(e) or 8(d); and (b) in any such case has not been satisfied, and in relation to any Accrued Coupon Payment means any amount thereof which has not been satisfied whether or not payment has become due;

"Paying Agents" means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent;

"Payment" means any Coupon Payment, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment, Accrued Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

"Payment Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London and in the place of the specified office of the relevant Paying Agent to whom the RCI or Coupon is presented or surrendered;

"Payment Ordinary Shares" has the meaning ascribed to it in Condition 6(b);

"Permitted Restructuring" means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Issuer (or, if the



Issuer is not then Ultimate Owner, the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then Ultimate Owner, the then Ultimate Owner) other than those already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then Ultimate Owner, the then Ultimate Owner) other than those already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then the Ultimate Owner, the then Ultimate Owner) not held by the New Holding Company are cancelled;

"Permitted Restructuring Arrangement" means an arrangement whereby the following conditions are satisfied (a) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that (i) the alternative coupon satisfaction mechanism as described in Condition 6, the Trust Deed and the Calculation Agency Agreement operates so that Ordinary Shares may be exchanged for Holding Company Shares in such a manner that ensures that upon sale of such Holding Company Shares the holder of each RCI then outstanding will receive, in the event of a payment to be satisfied pursuant to Condition 6, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place and (ii) the economic effect, for the RCI Holders, of a holding of the RCIs prior to the Permitted Restructuring is substantially preserved and (b) the Trustee is satisfied that the credit ratings that would be assigned to the RCIs by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and by Moody's Investors Service, Inc. following any such Permitted Restructuring, shall not be less than those assigned to the RCIs immediately prior to such Permitted Restructuring taking place;

"Preference Shares" means the 10 $\frac{3}{4}$ % per cent. Non-Cumulative Sterling Preference Shares of £1 each of the Issuer, the 8 $\frac{3}{4}$ % per cent. Non-Cumulative Sterling Preference Shares of £1 each of the Issuer and the 8.75 per cent. Non-Cumulative Dollar-denominated Preference Shares, Series A, of the Issuer and such other preference shares outstanding from time to time which rank *pari passu* with such preference shares;

"Principal Paying Agent" means the principal paying agent appointed pursuant to the Agency Agreement;

"RCIs" means the £300,000,000 7.037 per cent. Step-up Callable Perpetual Reserve Capital Instruments, and such expression shall include, unless the context otherwise requires, any further instruments issued pursuant to Condition 17 and forming a single series with the RCIs;

"RCI Holder" means the bearer of any RCI;

"Reference Bond" means, in relation to any calculation of the Suspension Redemption Price, the 6 per cent. Treasury Stock due 7 December 2028, or if such security is no longer in issue, such other United Kingdom government security as the Calculation Agent may, with the advice of the Reference Dealers, determine to be appropriate for determining the Suspension Redemption Price;

"Reference Dealers" means three brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in consultation with the Issuer and approved in writing by the Trustee, or such other three persons operating in the gilt-edged market as are selected by the Calculation Agent in consultation with the Issuer and approved in writing by the Trustee;

"Relevant Date" means (i) in respect of any payment other than a Winding-Up Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "Relevant Date" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the RCI Holders in accordance with Condition 16, and (ii) in respect of a Winding-Up Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up;

"Relevant Deferred Coupon Payment Date" means with respect to a deferral under Condition 4(a)(i) the Coupon Payment Date next following the 19th business day after such Exceptional Deferral Condition fails to be satisfied;

"Reset Date" means the First Reset Date and every fifth Coupon Payment Date thereafter;

"Reset Period" means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"Senior Creditors" means creditors of the Issuer (a) who are unsubordinated creditors of the Issuer, or (b) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Issuer or otherwise) to the claims of depositors and/or other creditors, whether subordinated or unsubordinated, of the Issuer other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the RCI Holders, or (c) whose claims are in respect of Junior Subordinated Debt ;

"Shareholders" means the holders at any given time of Ordinary Shares;

the "Solvency Condition" shall be satisfied in relation to the Issuer if its Assets exceed its Liabilities;

"Subsidiary" means each subsidiary for the time being of the Issuer;

"subsidiary" has the meaning ascribed to it under Section 736 of the Companies Act 1985;

"Substituted Issuer" has the meaning ascribed to it in Condition 13;

"Suspension" has the meaning ascribed to it in Condition 8(d);

"Suspension Redemption Price" means, in respect of each RCI, (a) the Authorised Denomination of such RCI or, if higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, part 1, 1978, page 18 (as amended from time to time)) on the RCIs, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day of the Reference Bond plus 0.75 per cent., on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such dealing day as determined by the Principal Paying Agent;

"Talon" means a talon for further Coupons;

"Tier 1 Capital" has the meaning ascribed to it in the Financial Services Authority's Guide to Banking Supervisory Policy (as amended from time to time) or any successor publication replacing such guide;

"Trust Deed" means the trust deed dated 14 February 2001 between the Issuer and the Trustee;

"Trustee" means The Bank of New York as trustee for the RCI Holders and includes its successor(s);

"Ultimate Owner" means, at any given time, the ultimate holding company of the Abbey National Group;

"Upper Tier 2 Capital" has the meaning ascribed to in the Financial Services Authority's Guide to Banking Supervisory Policy (as amended from time to time) or any successor publication replacing such guide;

"Upper Tier 2 Securities" means securities of the Issuer that have substantially similar terms to the RCIs save that (1) they shall contain terms no less favourable to an investor than the then current minimum requirements of the Financial Services Authority in relation to Upper Tier 2 Capital and (2) the Coupon Rate of such securities shall be determined in such manner as shall result in it being 0.40 per cent. per annum below the Coupon Rate from time to time (and whether before or after the First Reset Date) applying to the RCIs; and

"Winding-Up Claim" has the meaning ascribed to it in Condition 2(b)(ii).

## **USE OF PROCEEDS**

The net proceeds of the issue of the RCIs are estimated to amount to £297,000,000 and will be used to strengthen the capital base of the Abbey National Group.

## SUMMARY OF PROVISIONS RELATING TO THE RCIs WHILE IN GLOBAL FORM

### Exchange

The RCIs will be represented initially by a Temporary Global RCI in bearer form without Coupons or Talons which will be deposited outside the United States with a common depository for Clearstream, Luxembourg and Euroclear on or about 14 February 2001. The Temporary Global RCI will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global RCI in bearer form without Coupons or Talons on or after a date which is expected to be 26 March 2001 (the "Exchange Date") upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global RCI. Upon deposit of the Temporary Global RCI or the Permanent Global RCI (each a "Global RCI") with a common depository for Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of RCIs equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the holder of an RCI represented by a Global RCI must look solely to Clearstream, Luxembourg or Euroclear (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global RCI, subject to and in accordance with the respective rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

The Global RCIs will contain provisions applicable to the RCIs represented thereby, some of which modify the effect of the Terms and Conditions of the RCIs. Certain of these are summarised in this section.

For so long as any of the RCIs is represented by a Global RCI, the bearer of the Global RCI may, except as ordered by a court of competent jurisdiction or as required by law, be treated by the Issuer, the Trustee and the Paying Agents as the owner thereof and of all rights thereunder free from all encumbrances (in accordance with and subject to its terms and the Trust Deed) and the expression "RCI Holder" and related expressions shall be construed accordingly. Interests in RCIs which are represented by a Global RCI will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

If any date on which a payment is due on the RCIs occurs prior to the Exchange Date, the relevant payment will be made on the Temporary Global RCI only to the extent that certification as to non-US beneficial ownership as required by US Treasury regulations (in substantially the form referred to in the Temporary Global RCI or in such other form as is customarily issued in such circumstances by the relevant clearing system or depository) has been received by Clearstream, Luxembourg or Euroclear. Payment of amounts due in respect of the Permanent Global RCI will be made through Clearstream, Luxembourg or Euroclear without any requirement for certification.

The holder of the Temporary Global RCI shall not (unless, upon due presentation of such Temporary Global RCI for exchange (in whole or in part) for interests in the Permanent Global RCI, such exchange is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the RCIs represented by such Temporary Global RCI which falls due on or after the Exchange Date.

Interests in the Permanent Global RCI will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer RCIs (a) if the Permanent Global RCI is held on behalf of Clearstream, Luxembourg or Euroclear or the Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so by such holder giving notice to the Principal Paying Agent or (b) at any time at the option of the Issuer, by the Issuer giving notice to the Principal Paying Agent and the RCI Holders of its intention to exchange the Permanent Global RCI for definitive RCIs on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

On or after the Permanent Global Exchange Date the holder of the Permanent Global RCI shall

surrender the Permanent Global RCI to or to the order of the Principal Paying Agent. In exchange for the Permanent Global RCI, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive RCIs having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global RCI and a Talon.

“Alternative Clearing System” means any such other clearing system as shall have been approved by the Trustee.

“Permanent Global Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and except in the case of exchange pursuant to (a) above in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

### **Payments**

Principal and interest in respect of the Permanent Global RCI shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of any Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global RCI. No person shall however be entitled to receive any payment on the Permanent Global RCI falling due after the Permanent Global Exchange Date, unless exchange of the Permanent Global RCI for definitive RCIs is improperly withheld or refused by or on behalf of the Issuer.

### **Notices**

So long as the Permanent Global RCI is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices required to be given to RCI Holders may be given by their being delivered to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Terms and Conditions of the RCIs except that so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any notice delivered to Euroclear, Clearstream, Luxembourg and/or, as the case may be, the Alternative Clearing System shall be deemed to have been given to the RCI Holders on the day on which such notice is so delivered.

### **Meetings**

The holder of the Permanent Global RCI shall be treated at any meeting of RCI Holders as having one vote in respect of each £1,000 principal amount of RCIs for which the Permanent Global RCI may be exchanged.

### **Purchase and cancellation**

Cancellation of any RCI represented by the Permanent Global RCI which is required by the Terms and Conditions of the RCIs to be cancelled will be effected by reduction in the principal amount of the Permanent Global RCI.

### **Trustee's powers**

In considering the interests of RCI Holders in circumstances where the Permanent Global RCI is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Permanent Global RCI and may consider such interests on the basis that such accountholders were the holder of the Permanent Global RCI.

## THE ABBEY NATIONAL GROUP

Abbey National plc was incorporated in England and Wales on 12 September 1988 with registered number 2294747 and is the successor company to which the Abbey National Building Society transferred its business in July 1989. Abbey National is the parent company of the Group.

### Introduction

The Abbey National Group was the fourth largest banking group in the United Kingdom in terms of assets at 31 December 1999 with total assets of £181 billion (1998: £163 billion). During 1999, the Group made pre-tax profits of £1,783 million (1998: £1,520 million).

### The Business of the Group

Abbey National and its subsidiaries comprise a major personal financial services group in the United Kingdom, providing a wide range of financial products and services. The Group operates principally in the following business segments:

#### U.K. Retail Banking

U.K. Retail Banking is the largest business of the Group and the major areas of activity are:

##### *Mortgage Lending*

The Group provides an extensive mortgage service and, as at 31 December 1999, had total U.K. residential mortgage assets of £64.7 billion (1998: £62.3 billion) net of suspended interest and provisions. During 1999, the Group's market share of the increase in U.K. mortgages outstanding was an estimated 6.3 per cent. (1998: 5.9 per cent.). As at 31 December 1999, the Group's market share of the total U.K. mortgage stock was an estimated 13.1 per cent. compared to 13.6 per cent. as at 31 December 1998.

##### *Savings*

The Group provides a range of savings accounts to meet the varied requirements of its customers and, as at 31 December 1999, U.K. retail savings of customers with the Group amounted to £49.7 billion (1998: £49.3 billion). As at 31 December 1999, the Group's market share of the total U.K. liquid savings stock was an estimated 8.6 per cent. compared to 8.9 per cent. at 31 December 1998.

#### Wholesale Banking

The activities of Wholesale Banking are conducted primarily through Abbey National Treasury Services plc ("ANTS"). The assets of Wholesale Banking were £82 billion at 31 December 1999 (1998: £70 billion). This includes assets of £19 billion at 31 December 1999 in its specialist repo and stocklending subsidiary, Cater Allen International Limited (1998: £16 billion). Wholesale Banking raised total funds of approximately £13 billion in the international capital markets during 1999 and arranged on behalf of the Group the issue of mortgage-backed notes in the UK securitisation market in 1999 and perpetual preferred securities via the internet in February 2000. ANTS has branches in Paris and Hong Kong.

#### Life Assurance Operations

The Group is active in each of the three principal areas of the U.K. life assurance industry: life and ill-health protection assurance, pensions and investments and savings. Scottish Mutual Assurance plc offers a broad range of products through independent financial advisers, and diversified internationally during 1999 by entering markets in mainland Europe. Abbey National Life plc offers products through the Group's distribution network and during 1999 its entire product range was re-launched with greater customer focused features. Scottish Mutual Assurance plc's new business premiums income arising from policies sold in 1999 increased by 41 per cent. to £2,352 million (1998: £1,672 million). Abbey National Life plc's new business premiums from policies sold in 1999 totalled £1,194 million (1998: £851 million), a 40 per cent. increase.

## **Finance House**

Finance House provides unsecured personal loans under the Abbey National and First National brands. It also provides secured loans, motor finance and vehicle contract hire, leasing, factoring and commercial mortgages. In 1999, First National Bank's assets increased by 8 per cent. to £3.87 billion (1998: £3.57 billion).

## **General Insurance**

The range of general insurance products offered includes property, buildings and contents, payment protection, private medical, motor and travel insurance. For the year ended 31 December 1999 new business volumes have increased by 9 per cent. with motor new business volumes in particular growing strongly by 141 per cent. to 59,000 and creditor volumes increasing 42 per cent.

## **Wealth Management**

The Wealth Management Division comprises the offshore businesses of Abbey National and Cater Allen, the onshore retail businesses of Cater Allen, the Abbey National Independent Consulting Group and City Deal Services Limited. Wealth Management Division targets these specialist businesses primarily at high net worth individuals and expatriate clients.

## **Continental Europe**

The Group has operations in France and Italy, the main activity of which is the provision of residential mortgage loans. These businesses have been refocused and are now concentrating on profitable niche markets.

## **Financial Results for the twelve months to 31 December 2000**

In May 2000, a new management structure was announced, creating four customer facing divisions. The new divisions are:

- Retail Banking – UK Retail Banking, Abbey National Life and General Insurance;
- Wholesale Banking – Wholesale Banking;
- Business to Consumer – Wealth Management, cahoot and Inscape;
- Business to Business – Finance House, Scottish Mutual and Continental Europe Operations;
- Group Infrastructure – Group Central Holdings and Financial Holdings.

The Group increased its pre-tax and exceptional items profit by 11 per cent. to £1,975 million (1999: £1,783 million). Total Group assets have increased by 13 per cent. to £204 billion (1999: £181 billion). The Group's tier 1 capital ratio rose to 8.9 per cent. (1999: 7.7 per cent.) and the risk asset ratio rose to 13.5 per cent. (1999: 11.6 per cent.).

Retail Banking increased pre-tax profit before exceptional items by 5 per cent. to £1,283 million (1999: £1,227 million). Excluding the investment and transformation costs, the underlying profit before tax increased by 8 per cent. to £1,329 million. The net U.K. retail interest spread was reduced from 2.20 per cent. in 1999 to 2.01 per cent. in 2000. Further diversification in Retail Banking has been achieved with 42 per cent. growth in profit before tax from products other than Mortgages and Savings.

Wholesale Banking division increased pre-tax and exceptional item profit by 37 per cent. to £575 million (1999: £419 million) reflecting the robust performance of existing income streams, and the development of new businesses targeting markets with strong sustainable growth potential, and attractive risk:rewards. New income streams contributed to a 54 per cent. increase in income, with strong growth in Asset Financing (including the acquisition of Porterbrook), Wholesale Lending and Risk Management and Financial Products.

The Business to Consumer division is made up largely by new business ventures. It made a pre-tax loss of £48 million reflecting the heavy investment made in Inscape and cahoot during the year to establish the infrastructure required to develop the businesses and product range in 2001 to attract new customers to the Group. The existing Wealth Management operations increased

profit before tax by 36 per cent., reflecting cost savings from outsourcing back office services in City Deal, a 14 per cent. growth in retail deposits in the Offshore business and the continued growth of Self Invested Personal Pensions (SIPP) clients.

Profit before tax in the Business to Business division rose 9 per cent. to £254 million. Excluding £47 million (1999: £27 million) of integration costs in First National, underlying profit increased 15 per cent. to £301 million. In First National, profit before tax increased 5 per cent. with a change in business mix towards higher credit quality lending, and improved credit processes, resulting in a reduced bad debt charge. Scottish Mutual profit before tax increased 11 per cent., as a result of strong growth of new business premiums.

## **Recent Developments**

### *Scottish Provident*

On 6 September 2000, Abbey National entered into an agreement with The Scottish Provident Institution ("Scottish Provident") under which the business of Scottish Provident will be transferred to the Group for approximately £1.8 billion (subject to adjustment), of which approximately £1.6 billion will be payable by Abbey National to compensate members for loss of membership rights and approximately £0.2 billion will be paid into Scottish Provident's with profit fund (all these figures being subject to calculation of the value of the business as at the effective date of the transfer).

Scottish Provident is a mutual insurance group, based in Edinburgh, whose main activity is the provision of life products in the United Kingdom. It also has significant international operations based in the Isle of Man (distributing products internationally) and in the Republic of Ireland. Scottish Provident will form part of the Group's business to business banking division and increase the Group's presence in the life protection market.

The acquisition is subject to, amongst other things, approval by Scottish Provident's members and by certain regulatory authorities and the sanction of the Court. It is currently anticipated that completion of the acquisition will take place this summer.

### *Bank of Scotland*

On 3 November 2000, Abbey National announced that it had "made an approach to the Board of Bank of Scotland which may or may not lead to an offer for Bank of Scotland by Abbey National".

On 15 December 2000, Abbey National and Bank of Scotland made the following joint announcement: "Abbey National and Bank of Scotland confirm that they are continuing to progress discussions regarding a merger of the two groups. A merger would be subject to the usual conditions, including clearance by the regulatory authorities. Abbey National and Bank of Scotland believe that it is appropriate to begin the UK merger clearance process now. Consequently, Abbey National has today submitted a draft Merger Notice to the Office of Fair Trading and intends to file a formal Merger Notice at the beginning of next week. Submission of a Merger Notice at this stage will ensure that the process of obtaining clarity on the views of the competition authorities on the combination will not delay the timetable for implementing the transaction."

On 18 December 2000, Standard & Poor's Rating Services announced that it had placed the long-term credit rating of Abbey National on credit watch with negative implications. At the same time, Standard & Poor's announced that it had placed the long-term credit rating of Bank of Scotland on credit watch with positive implications.

On 19 December 2000, the Office of Fair Trading announced that a Merger Notice had been given under Section 75A of the Fair Trading Act 1973 in respect of arrangements for the proposed merger between Abbey National and Bank of Scotland, and that the period for considering this Notice would expire on 18 January 2001 unless extended by the Director General of Fair Trading under Section 75B(3) of that Act.



On 12 January 2001, the Director General of Fair Trading announced that, in accordance with section 75B(3) of the Fair Trading Act 1973, the period for consideration of the Merger Notice announced on 19 December 2000 in respect of the proposed merger between Abbey National and Bank of Scotland had been extended for a further period of 15 working days. The period for considering the Notice will therefore now expire on 8 February 2001.

On 5 February 2001, the Secretary of State for Trade and Industry announced that he had decided, on the information at present before him, and in accordance with the recommendation of the Director General of Fair Trading, not to refer the proposed merger between Abbey National plc and Bank of Scotland to the Competition Commission under the provisions of the Fair Trading Act 1973.

On 6 February 2001, Bank of Scotland announced that "Discussions are continuing between BoS and Abbey National concerning a possible combination of the two groups. The outcome of these discussions is not yet certain".

#### *Lloyds TSB Group plc*

On 5 December 2000, Abbey National made the following announcement: "In response to recent press speculation, the Board of Abbey National announces that on 4 December its Chairman and Chief Executive met the Chairman and Chief Executive of Lloyds TSB at Lloyds TSB's request. Lloyds TSB talked generally about its view of the business merits of a combination of the two groups. Earlier this afternoon, Lloyds TSB sent Abbey National a letter containing further details which the Board of Abbey National will now consider. Meanwhile, Abbey National's talks with Bank of Scotland about a possible combination continue to make good progress".

On 7 December 2000, Abbey National announced that "The Board of Abbey National has considered the contents of the letter sent to Abbey National by Lloyds TSB on 5 December 2000 about a takeover of Abbey National by Lloyds TSB. The Board has concluded that the proposals contained in the letter are unattractive and accordingly it does not intend to enter into discussions with Lloyds TSB".

On 12 December 2000, Abbey National announced that: "The Board of Abbey National plc confirms that it has received a second letter from Sir Brian Pitman, Chairman of Lloyds TSB plc. The letter sets out a further proposal for the acquisition of Abbey National by Lloyds TSB". It added that: "The Board of Abbey National has met today to consider the Lloyds TSB proposal and unanimously agreed to reject it as inadequate and uncertain. In reaching this conclusion the Board has had particular regard to the advice it has received on shareholder value, deliverability and regulatory risk."

On 13 December 2000, Lloyds TSB announced that it was "disappointed that Abbey National has rejected its proposal without choosing to discuss the proposal with Lloyds TSB." It added that: "Lloyds TSB will now consider the reaction of shareholders to the position adopted by Abbey National's Board and any announcement by Abbey National relating to Bank of Scotland. Accordingly, Lloyds TSB continues to keep its options open."

On 5 January 2001, the Office of Fair Trading announced that a Merger Notice had been given under Section 75A of the Fair Trading Act 1973 in respect of arrangements for the proposed acquisition by Lloyds TSB of Abbey National, and that the period for considering this Notice would expire on 2 February 2001 unless extended by the Director General of Fair Trading under Section 75B(3) of that Act.

On 26 January 2001, the Director General of Fair Trading announced that, in accordance with Section 75B(3) of the Fair Trading Act 1973, the period of consideration of the Merger Notice announced on 5 January 2001 in respect of the proposed acquisition by Lloyds TSB of Abbey National had been extended for a further period of 15 working days. The period for considering the Notice will therefore now expire on 23 February 2001.

On 31 January 2001, Lloyds TSB announced its firm intention, subject to pre-conditions, to make an offer to acquire Abbey National. It announced that: "Lloyds TSB will offer 1.5 New Lloyds TSB Shares plus 260 pence in cash for each Abbey National Share. The Offer will also include a Mix and

Match Election and a Loan Note Alternative." It added that: "The making of the Offer and the posting of the Offer documentation will take place following satisfaction or waiver of the pre-conditions set out in appendix I to this announcement, namely confirmation that the proposed transaction will not be referred to the Competition Commission and the Abbey National Board agreeing to recommend the Offer. Both of these pre-conditions may be waived at Lloyds TSB's discretion. If the pre-conditions are not satisfied, Lloyds TSB will make its decision with regard to the waiver of these pre-conditions once it has heard the terms of the final decision by the Secretary of State for Trade and Industry as to whether or not the proposed acquisition will be referred to the Competition Commission, and once it has had the opportunity to meet with Abbey National Shareholders which it intends to do following this announcement." It further added that: "The Offer will also be subject to the terms and conditions set out in appendix III to this announcement and to the further terms to be set out in the formal Offer Document and the Form of Acceptance. In particular, the Offer will be conditional on approval by Lloyds TSB Shareholders and satisfaction of certain regulatory conditions."

On 31 January 2001, Abbey National made the following announcement: "Abbey National plc notes the announcement by Lloyds TSB of a pre-conditional offer on the same terms as the proposal put by Lloyds TSB to Abbey National in early December 2000. The terms announced today were considered fully by the Board in December. At that time, the Board unanimously concluded that the proposal should be rejected as both inadequate and uncertain. Abbey National has arranged to meet Lloyds TSB to give Lloyds TSB an opportunity to explain its proposal. The Board of Abbey National will meet to consider its response."

On 7 February 2001, Abbey National made the following announcement: "The Board of Abbey National plc has met to consider the pre-conditional offer for Abbey National announced by Lloyds TSB plc on 31 January 2001. The Board noted that the terms of the pre-conditional offer are the same as those proposed by Lloyds TSB in December. The Board has considered the additional information provided by Lloyds TSB. It has also taken advice from Lehman Brothers, UBS Warburg and Morgan Stanley Dean Witter. It has concluded that the proposed offer terms remain inadequate and subject to material uncertainties."

## Directors of Abbey National

The following are members of the Board of Directors of Abbey National:

<i>Position</i>	<i>Name</i>	<i>Other principal activities</i>
Chairman	The Lord Tugendhat	Non-Executive Director, Eurotunnel plc Chairman, Blue Circle Industries PLC Non-Executive Director, Rio Tinto PLC
Deputy Chairman	Keith Woodley, FCA	
Chief Executive	Ian Harley, FCA, FCIB	Non-Executive Director, Rentokil Initial plc
Executive Directors	Tim Ingram, MBA, FCIB Yasmin Jetha, FCMA Gareth Jones, FCA, FCT John King Malcolm Millington Mark Pain, FCA Andrew Pople, MBA Ian Treacy, FCA	Non-Executive Director, Somerfield plc
Non-Executive Directors	Leon Allen Mair Barnes Lord David Anthony Currie  Richard Hayden  Sir Terence Heiser, GCB Peter Ogden  The Lord Shuttleworth, FRICS	Non-Executive Chairman, Braes Group Limited Non-Executive Director, Scottish Power Plc Non-Executive Director, Joseph Rowntree Reform Trust Limited Executive Chairman, GSC Partners Europe Limited  Director, Computacenter plc, Chairman, Omnia Limited and Computasoft Limited Non-Executive Director, The Rank Foundation Limited

The business address of each of the above is Abbey House, Baker Street, London NW1 6XL.

## CAPITALISATION AND INDEBTEDNESS OF THE ABBEY NATIONAL GROUP

The following table sets out the authorised and issued share capital of the Issuer and the Group shareholders' funds and indebtedness as at 31 December 1999 and as at 30 November 2000<sup>(8)(9)</sup>

	As at 31 December 1999 (audited)	As at 30 November 2000 (unaudited)
	(in £ million)	
<b>ISSUER</b>		
Authorised share capital:		
Sterling Ordinary shares of 10p each	175	175
Sterling Preference shares of £1 each	1,000	1,000
USD Preference shares of \$0.01	6	7
Issued and fully paid comprising ordinary shares of 10p each	142	143
Issued and fully paid comprising sterling preference shares of £1 each	325	325
<b>GROUP SHAREHOLDERS' FUNDS</b>		
<b>Equity</b>		
Issued and fully paid share capital	142	143
Share premium	1,411	1,484
Reserves	449	449 <sup>(1)</sup>
Profit and loss account	3,626	4,017 <sup>(1)</sup>
<b>Non-Equity</b>		
Issued and fully paid preference share capital	325	325
Trust Preferred Securities eligible as Tier 1 Capital <sup>(2)</sup>	—	704
Share premium <sup>(2)</sup>	125	125
<b>Total Shareholders' Funds</b>	6,078	7,247
<b>GROUP INDEBTEDNESS<sup>(3)</sup></b>		
<b>Subordinated Bonds/Notes<sup>(2)(4)</sup></b>		
Due within one year	203	141
Due after more than one year and less than five years	832	1,416
Due after five years	3,406	4,380
Exchangeable capital securities <sup>(5)</sup>	200	200
	4,641	6,137
<b>Medium-Term Note Programme<sup>(4)</sup></b>		
Due within one year	6,761	6,192
Due after more than one year and less than five years	2,348	2,883
Due after five years	1,300	1,531
	10,409	10,606

	As at 31 December 1999 (audited)	As at 30 November 2000 (unaudited)
	(in £ million)	
<b>Other Loan Capital<sup>(4)</sup></b>		
Floating/Variable Rate Bonds/Notes		
Due within one year	2,368	711
Due after more than one year and less than five years	2,052	1,326
Due after five years	40	362
	<hr/> 4,460	<hr/> 2,399
<b>Fixed Rate Bonds/Notes<sup>(4)</sup></b>		
Due within one year	1,774	1,967
Due after more than one year and less than five years	8,969	9,921
Due after five years	1,743	1,466
	<hr/> 12,486	<hr/> 13,354
<b>Total Indebtedness<sup>(6)</sup></b>	<hr/> 31,996	<hr/> 32,496
<b>Total Capitalisation<sup>(7)</sup></b>	<hr/> 38,074	<hr/> 39,743

**Notes:**

<sup>(1)</sup> As at 30 June 2000.

<sup>(2)</sup> The preference share premium and subordinated bonds/notes are stated after the deduction of issue costs of £8 million and £40 million respectively and the trust preferred securities are stated after the deduction of issue costs of £7 million.

<sup>(3)</sup> All the bonds and notes are unsecured indebtedness guaranteed by Abbey National, apart from £3,571 million at 31 December 1999 and £5,519 at 30 November 2000 which is unsecured indebtedness of Abbey National which is not guaranteed by any entity outside the Group.

<sup>(4)</sup> Liabilities in foreign currencies are translated into Pounds Sterling at market exchange rates prevailing at 31 December 1999 and 30 November 2000 as appropriate.

<sup>(5)</sup> 200 million 10<sup>1</sup>/<sub>16</sub> per cent. Exchangeable Capital Securities exchangeable into 200 million 10<sup>3</sup>/<sub>8</sub> per cent. Non-Cumulative Sterling Preference Shares of £1 each of Abbey National on any Exchange Date at the option of Abbey National.

<sup>(6)</sup> Holmes Funding No. 1 PLC, Holmes Funding No. 2 PLC and ILSE No. 1 PLC are quasi subsidiaries of the Group, pursuant to FR55 Reporting the Substance of Transactions, and have issued £6,350 million of Notes. This amount has not been included in the indebtedness of the Group on the basis that the Group is under no obligation to support any loss that may be incurred by the companies.

<sup>(7)</sup> The total capitalisation and indebtedness of the Group has decreased by £1,031 million between 30 November 2000 and 14 February 2001 as a result of issues and repayments of loan capital amounting to £1,098 million and £2,194 million, respectively, and a £65 million increase due to foreign exchange movements and will increase by approximately £300 million as a result of this issue.

<sup>(8)</sup> As at 14 February 2001, no undertaking within the Group, either individually or collectively, had any contingent liabilities or guarantees outside of the Group which were material in the context of the Issuer.

<sup>(9)</sup> Save for the information disclosed herein, there has been no material change in the authorised or issued share capital of the Issuer and no material change in the indebtedness, capitalisation, contingent liabilities or guarantees of the Issuer since 30 November 2000.

## SUMMARY FINANCIAL STATEMENTS

### 1 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ABBEY NATIONAL PLC

Consolidated profit and loss accounts for the years ended 31 December 1999 and 1998<sup>(1)</sup>

	1999	1998
	£m	£m
<b>Interest receivable</b>		
Interest receivable and similar income arising from debt securities	2,902	3,103
Other interest receivable and similar income	6,327	6,822
Interest payable	(6,568)	(7,684)
<b>Net interest income</b>	<b>2,661</b>	<b>2,241</b>
Dividend income	2	4
Fees and commissions receivable	737	643
Fees and commissions payable	(246)	(136)
Dealing profits	98	32
<b>Other operating income:</b>		
Income from long term assurance business	196	155
Other operating income	302	172
<b>Total operating income</b>	<b>3,750</b>	<b>3,111</b>
Administrative expenses	(1,496)	(1,240)
Depreciation and amortisation	(119)	(106)
Provisions:		
Provisions for bad and doubtful debts	(303)	(201)
Provisions for contingent liabilities and commitments	(23)	(16)
Amounts written off fixed asset investments	(26)	(28)
<b>Profit on ordinary activities before tax</b>	<b>1,783</b>	<b>1,520</b>
Tax on profit on ordinary activities	(522)	(462)
<b>Profit on ordinary activities after tax</b>	<b>1,261</b>	<b>1,058</b>
Transfer to non-distributable reserve	(13)	(125)
Dividends including amounts attributable to non-equity interests	(610)	(535)
<b>Profit retained for the financial year</b>	<b>638</b>	<b>398</b>
<b>Earnings per ordinary share-basic</b>	<b>86.2p</b>	<b>72.4p</b>
<b>Earnings per ordinary share-diluted</b>	<b>85.5p</b>	<b>71.7p</b>

Note:

<sup>(1)</sup> This information has been extracted without material adjustment from the Directors' Report and Accounts of the Issuer for the years ended 31 December 1999 and 31 December 1998.

**Consolidated balance sheets as at 31 December 1999 and 1998<sup>(1)</sup>**

	1999		1998	
	£m	£m	£m	£m
<b>Assets</b>				
Cash and balances at central banks		701		329
Treasury bills and other eligible bills		1,114		2,057
Loans and advances to banks		11,472		7,428
Loans and advances to customers		75,221		72,257
Loans and advances to customers subject to securitisation	1,930		217	
Less: non-returnable finance	(1,379)		(213)	
		551		4
Net investment in finance leases		5,441		5,326
Debt securities		59,445		54,203
Equity shares and other variable yield securities		295		123
Long term assurance business		1,042		760
Interests in associated undertakings		59		20
Intangible fixed assets		203		201
Tangible fixed assets		759		731
Operating lease assets		358		223
Other assets		3,930		3,332
Prepayments and accrued income		2,714		2,376
Assets of long term assurance funds		17,439		13,383
<b>Total assets</b>		<b>180,744</b>		<b>162,753</b>
<b>Liabilities</b>				
Deposits by banks		29,824		35,610
Customer accounts		59,911		52,924
Debt securities in issue		51,407		42,989
Dividend proposed		382		334
Other liabilities		6,930		4,564
Accruals and deferred income		2,857		3,015
Provisions for liabilities and charges		1,275		1,194
Subordinated liabilities including convertible debt		4,641		3,333
Liabilities of long term assurance funds		17,439		13,383
		174,666		157,346
Called up share capital – ordinary shares	142		142	
– preference shares	325		325	
Share premium account	1,536		1,493	
Reserves	449		433	
Profit and loss account	3,626		3,014	
Shareholders' funds including non-equity interests		6,078		5,407
<b>Total liabilities</b>		<b>180,744</b>		<b>162,753</b>
<b>Memorandum items</b>				
Contingent liabilities				
Guarantees and assets pledged as collateral security		2,214		1,844
Other contingent liabilities		477		552
		2,691		2,396
<b>Commitments</b>				
Obligations under stock borrowing and lending agreements		17,024		15,026
Other commitments		6,235		2,810
		23,259		17,836

**Note:**

<sup>(1)</sup> This information has been extracted without material adjustment from the Directors' Report and Accounts of the Issuer for the years ended 31 December 1999 and 31 December 1998.

## 2 INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF ABBEY NATIONAL PLC

### Consolidated profit and loss accounts for the six months ended 30 June 2000 and 30 June 1999<sup>(1)</sup>

	2000 (unaudited) £m	1999 (unaudited) £m	Full Year 1999 £m
Net interest income	1,332	1,307	2,661
Commissions, fees and other income	587	518	1,089
Total operating income	1,919	1,825	3,750
Operating expenses	(862)	(761)	(1,615)
Provisions for bad and doubtful debts	(132)	(171)	(303)
Provisions for contingent liabilities and commitments	7	(3)	(23)
Amounts written off fixed asset investments	(10)	(15)	(26)
Operating profit on ordinary activities before tax	922	875	1,783
Tax on profit on ordinary activities	(273)	(264)	(522)
Profit on ordinary activities after tax	649	611	1,261
Transfer to non-distributable reserve	—	—	(13)
Minority interests-non equity	(23)	—	—
Preference dividends	(20)	(17)	(38)
Ordinary dividends	(216)	(190)	(572)
Profit retained for the period	390	404	638
Average number of ordinary shares in issue (millions)	1,422	1,418	1,418
Earnings per ordinary share-basic	42.6p	41.9p	86.2p
Earnings per ordinary share-diluted	42.3p	41.5p	85.5p
Dividends per ordinary share	15.15p	13.40p	40.25p
Dividend cover	2.8	3.1	2.1

**Note:**

- <sup>(1)</sup> This information has been extracted without material adjustment from the Directors' Report and Accounts of the Issuer for the six months ended 30 June 2000 and 30 June 1999.



**Consolidated balance sheets as at 30 June 2000 and 30 June 1999<sup>(1)</sup>**

	2000 £m	1999 £m
<b>Assets</b>		
Cash, treasury bills and other eligible bills	1,275	3,097
Loans and advances to banks	8,742	9,972
Loans and advances to customers	80,811	72,233
Loans and advances subject to securitisation	1,733	1,137
Non-returnable finance on securitised advances	(1,321)	(1,129)
Loans and advances to customers, after non-returnable finance	81,223	72,241
Net investment in finance leases	5,510	5,362
Securities and investments	67,457	62,390
Long-term assurance business	1,110	973
Fixed assets	945	947
Operating lease assets	1,727	267
Other assets	8,042	8,428
Assets of long-term assurance funds	18,099	14,974
<b>Total assets</b>	<b>194,130</b>	<b>178,651</b>
<b>Liabilities</b>		
Deposits by banks	30,640	36,621
Customer accounts	64,858	53,321
Debt securities in issue	57,311	52,949
Other liabilities	11,293	10,870
Subordinated liabilities including convertible debt	4,803	4,096
Liabilities of long-term assurance funds	18,099	14,974
<b>Total liabilities</b>	<b>187,004</b>	<b>172,831</b>
Minority interests - non equity	653	-
Non-equity shareholders' funds	450	450
Equity shareholders' funds	6,023	5,370
<b>Total liabilities, minority interests and shareholders' funds</b>	<b>194,130</b>	<b>178,651</b>

**Note:**

- <sup>(1)</sup> This information has been extracted without material adjustment from the Directors' Report and Accounts of the Issuer for the six months ended 30 June 2000 and 30 June 1999.

## UNITED KINGDOM TAXATION

*The following is a summary of the current United Kingdom taxation treatment of the RCI's. It is not exhaustive. It relates only to the position of persons who are the absolute beneficial owners of the RCI's and Coupons and may not apply to certain classes of RCI Holders, such as dealers in securities. RCI Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.*

### Withholding tax

- 1 All payments of interest on the RCI's can be paid gross provided that, at the time of the payment, the RCI's are listed on a recognised stock exchange, as defined in Section 841 of the Income and Corporation Taxes Act 1988 ("ICTA") (the Luxembourg Stock Exchange is so recognised). The Finance Act 2000 also contains new machinery which will become effective from 1 April 2001 enabling the United Kingdom Inland Revenue to obtain information about United Kingdom savings income of all individuals and, in certain circumstances, to exchange taxpayer information with the tax authorities of other jurisdictions.

In all other cases, interest on the RCI's will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double tax treaty.

- 2 The interest on the RCI's will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom income tax by direct assessment even if paid without withholding or deduction. The profit realised on any disposal (which includes redemption) of any RCI issued at an issue price of less than the amount payable on redemption is similarly chargeable but does not attract United Kingdom withholding. However, neither such profit nor interest received without deduction or withholding is chargeable to United Kingdom tax in the hands of an RCI Holder who is not resident for tax purposes in the United Kingdom unless the RCI Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest or profit is received or to which the RCI's are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
- 3 If interest on the RCI's were to be paid under deduction of United Kingdom income tax, RCI Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
- 4 The provisions relating to additional payments referred to in Condition 11 of "Terms and Conditions of the RCI's" would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest or (where applicable) profit on any RCI directly to United Kingdom income tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

### Holders within the charge to United Kingdom income tax

- 5 RCI holders who are within the charge to United Kingdom income tax on the interest payable on the RCI's will generally be liable to tax on this interest when it is paid to them in cash or in the form of Ordinary Shares (see Condition 6 of the Terms and Conditions of the Notes).

### Proposed EU Directive on the taxation of savings income

- 6 The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments and subject to the proposals not being required to be applied to RCI's issued before 1 March 2001.

## SUBSCRIPTION AND SALE

Under a subscription agreement entered into with the Issuer on 14 February 2001 (the "Subscription Agreement"), Barclays Bank PLC, Salomon Brothers International Limited and UBS AG, acting through its business group UBS Warburg (together the "Managers") have agreed to subscribe for the RCLs at the issue price of 100 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission of 1 per cent. of the principal amount of the RCLs. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Issuer.

The RCLs have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

RCLs are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver RCLs (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells RCLs during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of RCLs within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of RCLs within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that:

- (1) it has not offered or sold and prior to the date six months after the date of issue of the RCLs will not offer or sell any RCLs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (2) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the RCLs in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the RCLs, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

No action has been or will be taken in any country or any jurisdiction by the Managers or the Issuer that would permit a public offering of the RCLs, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the RCLs, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed to comply with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers RCLs or has in its possession or distributes the Offering Circular or any such other material relating to the RCLs, in all cases at its own expense. Each Manager has also undertaken

to ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions. The Issuer will have no responsibility for, and each Manager has agreed to obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of RCLs under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Managers have not been authorised to make any representation or use any information in connection with the issue, subscription and sale of the RCLs other than as contained in this Offering Circular or any amendment or supplement to it.

## GENERAL INFORMATION

- (1) In connection with the application to list the RCI's on the Luxembourg Stock Exchange a legal notice relating to the issue of the RCI's and copies of the Memorandum and Articles of Association of the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*") where such documents may be examined and copies obtained.
- (2) The RCI's have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 12456956. The ISIN for the RCI's is XS0124569566.
- (3) All RCI's and Coupons will carry a legend to the following effect "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of an RCI or Coupon.
- (4) No member of the Group is or has been involved in any legal or arbitration proceedings relating to claims on amounts which are material in the context of the issue of the RCI's nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (5) In 1996, ANTS received a demand from an overseas tax authority in an amount of approximately £100 million relating to the repayments of certain tax credits received and related charges. ANTS has been advised that it has strong grounds to challenge the validity of the demand. As at 31 December 1999, additional interest in relation to the demand could amount to approximately £13 million (1998: £10 million).
- (6) Save as disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Issuer or the Group since 31 December 1999.
- (7) No redemption or purchase by the Issuer or any of its subsidiaries for cancellation of the RCI's will be made by the Issuer without the prior consent of the Financial Services Authority.
- (8) Copies of the latest annual report and consolidated accounts of the Issuer, the latest interim consolidated accounts of the Issuer and the 2000 Preliminary Full Year Financial Results Announcement may be obtained, and copies of the Trust Deed will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, so long as any of the RCI's is outstanding. Consolidated interim accounts are currently produced on a semi-annual basis. The Issuer does not publish non-consolidated interim profit and loss accounts.
- (9) The consolidated accounts of the Issuer for the year ended 31 December 1997 and 1998 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by Price Waterhouse (formerly Coopers & Lybrand) Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge, London SE1 9SY. The consolidated accounts of the Issuer for the years ended 31 December 1999 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by Deloitte & Touche Chartered Accountants and Registered Auditors of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. The financial information included on pages 36 to 41 of this document does not constitute statutory accounts of the Issuer within the meaning of section 240 of the Companies Act 1985 (the "Companies Act"). Statutory consolidated accounts relating to each financial year to which such financial information relates have been delivered to the Register of Companies in England and Wales. The Issuer's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 273(2) or (3) of the Companies Act.

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*to the Managers and the Trustee*

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