OFFERING CIRCULAR

FRIENDS PROVIDENT

FRIENDS PROVIDENT PLC

(incorporated with limited liability in England and Wales with registered number 4113107)

£300,000,000
6.875 per cent. Step-up Tier one Insurance Capital Securities
("STICS")
having the benefit of a subordinated guarantee of

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

(incorporated with limited liability in England and Wales with registered number 4096141)

Issue Price: 99.952 per cent

The £300,000,000 6.875 per cent. Step-up Tier one Insurance Capital Securities ("STICS") will bear interest from (and including) 21 November 2003 to (but excluding) 21 November 2019 at a rate of 6.875 per cent. per annum on their outstanding principal amount. For each Coupon Period commencing after 21 November 2019, the STICS will bear interest reset every 5 years at a rate per annum which is the aggregate of 2.97 per cent. and the Gross Redemption Yield of the Benchmark Gilt as described under "Terms and Conditions of the STICS – Coupons". Coupon Payments will be payable semi-annually in arrear on 21 May and 21 November of each year commencing on 21 May 2004. Coupon Payments on the STICS may be deferred as described under "Terms and Conditions of the STICS – Deferred Interest". Deferred Interest will be satisfied only at the next succeeding Coupon Payment Date on which Coupon Payments are made on the STICS in accordance with their terms or, if earlier, upon a redemption of the STICS or on a winding-up of the Issuer and, other than on a winding-up of the Issuer, will be settled in accordance with the Alternative Coupon Satisfaction Mechanism described under "Terms and Conditions of the STICS – Alternative Coupon Satisfaction Mechanism".

The STICS will be issued by Friends Provident plc (the "Issuer"). All obligations of the Issuer to make payments in respect of the STICS will be guaranteed on a limited and subordinated basis by Friends Provident Life and Pensions Limited (the "Guarantor" or "FPLP").

The STICS have no maturity date. The STICS will be redeemable at the option of the Issuer on 21 November 2019 or on any Reset Date falling thereafter at their principal amount together with any accrued and unpaid interest, including Deferred Interest, subject to (a) the Solvency Condition being met by the Issuer, (b) the Issuer giving prior written notice to the Financial Services Authority, and either receiving their consent to, or receiving no objection after six months following such notice to, such redemption and (c) the Issuer's obligation to make payment of any Deferred Interest only through the Alternative Coupon Satisfaction Mechanism. The Issuer may also redeem the STICS or exchange them into another series of capital securities at any time in the event of *inter alia* certain changes in certain U.K. tax or regulatory requirements applicable to the Issuer and/or the Guarantor as described under "Terms and Conditions of the STICS – Optional Redemption and Suspension".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA") for the STICS to be admitted to the Official List of the United Kingdom Listing Authority and to London Stock Exchange plc (the "London Stock Exchange") for the STICS to be admitted to trading on the London Stock Exchange's market for listed securities.

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

The STICS will be represented initially by a Temporary Global STICS in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme, Luxembourg on or about 21 November 2003. The Temporary Global STICS will be exchangeable in whole or in part (free of charge to the Holder) for interests in a Permanent Global STICS in bearer form without Coupons or Talons on or after a date which is expected to be 2 January 2004 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global STICS.

The STICS are expected to be assigned a rating of A- by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies. Inc and a rating of Baa2 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.

MERRILL LYNCH INTERNATIONAL
Structuring Adviser

BARCLAYS CAPITAL

HSBC

Offering Circular dated 20 November 2003

This Offering Circular comprises listing particulars approved by the U.K. Listing Authority as required by the FSMA prepared for the purpose of giving information with regard to the Issuer, the Guarantor and their respective subsidiaries (together the "Group") and the STICS. A copy of this Offering Circular has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of the FSMA.

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

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the offering of the STICS and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Guarantor, the Trustee or the Managers (as defined under "Subscription and Sale" below).

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, the Guarantor, the Trustee or the Managers that any recipient of this Offering Circular should purchase any of the STICS. Each investor contemplating purchasing STICS should make its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer and the Guarantor.

Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Group since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Managers to subscribe for, or purchase, any of the STICS. This Offering Circular does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The STICS have not been and will not be registered under the United States Securities Act of 1933 as amended, (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, the STICS may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the STICS and on distribution of this Offering Circular, see "Subscription and Sale" below.

All references in this document to "Sterling" and "£" refer to the currency of the United Kingdom.

In connection with the issue of the STICS, Merrill Lynch International or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the STICS at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Merrill Lynch International or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. The Issuer and the Guarantor have confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the Listing Rules. The Issuer and the Guarantor believe that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

Documents Incorporated by Reference

(1) *The audited consolidated and non-consolidated financial statements of the Issuer for the period ended 31 December 2001 and year ended 31 December 2002.*

(2) *The unaudited interim consolidated financial statements of the Issuer for the six months ended 30 June 2003.*

(3) *The audited non-consolidated financial statements of the Guarantor for the period ended 31 December 2001 and year ended 31 December 2002.*

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PART 1: SUMMARY OF THE PRINCIPAL FEATURES OF THE STICS

The following summary refers to certain provisions of the Terms and Conditions of the STICS and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Circular. Terms which are defined in "Terms and Conditions of the STICS" have the same meaning when used in this summary.

Issuer	Friends Provident plc
Guarantor	Friends Provident Life and Pensions Limited
Trustee	The Law Debenture Trust Corporation p.l.c.
Issue	£300,000,000 6.875 per cent. Step-up Tier one Insurance Capital Securites.
Coupons	The STICS will bear interest from (and including) 21 November 2003 to (but excluding) 21 November 2019 at a fixed rate of 6.875 per cent. per annum on their outstanding principal amount and thereafter at a rate which is the aggregate of 2.97 per cent. and the Gross Redemption Yield of the Benchmark Gilt (the "Reset Coupon Rate"), reset every 5 years, 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 on Reuters Page "DMO/Bench1" (or such other page as may replace it for the purpose of displaying such information) at 3.00 p.m. (London time) on the relevant Determination Date, *Provided* that if such price does not appear on Reuters Page "DMO/Bench1" on the relevant Determination Date, then the price of the Benchmark Gilt shall be 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 Market Makers at 3.00 p.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London.
Coupon Payment Dates	Coupon Payments will, subject as set out in "Terms and Conditions of the STICS – Deferred Interest" below, be payable semi-annually in arrear on 21 May and 21 November of each year commencing on 21 May 2004.
Additional Amounts	All payments in respect of the STICS will be made without withholding taxes of the United Kingdom, unless the withholding is required by law. In such event, the Issuer or the Guarantor will, subject as provided in Condition 10, pay such additional amounts as will be necessary to ensure that the net amount received by Holders, after the withholding, will equal the amount which would have been receivable in the absence of the withholding.
Guarantee	The STICS will be irrevocably guaranteed on a subordinated basis by the Guarantor. *The Guarantee is intended to provide Holders with rights against the Guarantor in respect of guaranteed payments which are as nearly as possible equivalent to those which they would have had if the STICS had been directly issued preference shares of the Guarantor.* The Guarantee shall not constitute a liability attributable to the long-term insurance fund of the Guarantor and accordingly, except in a winding-up of the Guarantor, payments under the Guarantee shall only be met from assets outside such fund. The liability of the Guarantor under the Guarantee will not exceed the extent of the Guarantor's assets available to make payment in respect thereof.

	The Guarantor shall have the option to defer its obligation to make payments under the Guarantee to Holders in respect of (i) Deferred Interest (ii) any Coupon Payment (iii) any amounts due and payable by the Issuer on redemption of the STICS or (iv) any other amounts due and payable under the Conditions. The Guarantor may elect to defer the payment of such amounts for such period of time as it determines. If the Guarantor does elect to make such a deferral, the obligation to make payment of such amounts shall remain outstanding until such time as they are paid in full by the Guarantor and such amounts shall in any event (to the extent not paid earlier) be payable by the Guarantor in a winding-up of the Guarantor. On a winding-up of the Issuer, the Guarantor shall meet the payment obligations of the Issuer that would otherwise have arisen under the Conditions. The Guarantor shall, in addition, have the benefit of all the provisions applicable to the Issuer in the Conditions (including, without limitation, the Issuer's ability to redeem the STICS). In such circumstances, however, no amounts shall be payable under the Guarantee prior to the time at which such amounts would have fallen due under the STICS themselves in the absence of the winding-up of the Issuer. On a winding-up of the Issuer, if the Guarantor is obliged to satisfy its obligation to pay any Deferred Interest then the directors of the Guarantor shall use their best endeavours to satisfy such payment through the Guarantor Alternative Coupon Satisfaction Mechanism (as set out in this Condition 6). If, after a period of six months, the directors of the Guarantor determine in good faith that it has not been possible and it will not be reasonably possible to satisfy such amounts through the application of this mechanism in relation to the ordinary shares of the Guarantor then the obligation of the Guarantor to pay such Deferred Interest then outstanding shall terminate.
Subordination	The STICS constitute unsecured, subordinated obligations of the Issuer, and will rank *pari passu* without any preference among themselves. The rights and claims of the Holders under the STICS and the Guarantee in respect of the principal amount of the relevant STICS (and amounts accrued and unpaid in respect of any Coupon including any Deferred Interest) are subordinated on a winding-up to the rights and claims of Senior Creditors of the Issuer or the Guarantor (as the case may be). See "Terms and Conditions of the STICS – Status, Subordination and Guarantee". On any winding-up of the Issuer or of the Guarantor, the Holders will rank as if they were holders of preference shares of the Issuer or (in respect of claims under the Guarantee) the Guarantor, *pari passu* with the holders of the most senior ranking class of issued preference shares of the Issuer or the Guarantor, if any, and any other Parity Securities of the Issuer or the Guarantor (as the case may be) then outstanding, junior to Senior Creditors of the Issuer or the Guarantor (as the case may be) and in priority to all holders of Junior Securities of the Issuer or the Guarantor (as the case may be).
Solvency Condition	Except in a winding-up, or if the FSA has indicated that it has no objection to such payment, all payments on the STICS will be conditional upon the Issuer, and all payments under the Guarantee will be conditional upon the Guarantor, satisfying the Solvency

	Condition at the time of and immediately after any such payment and neither the Issuer nor the Guarantor will make any payment and any such payment shall not be payable in respect of the STICS or under the Guarantee and neither the Guarantor nor the Issuer, nor any Subsidiary, as applicable, may redeem or purchase any of the STICS unless the Issuer or the Guarantor (as the case may be) satisfies the Solvency Condition both at the time of and immediately after any such payment, redemption or purchase. See "Terms and Conditions of the STICS – Solvency Condition".
Issuer Payment Option	Subject to the dividend and capital restriction described below, the Issuer may elect, at its sole discretion, to defer any Coupon Payment on any Coupon Payment Date.
Mandatory Deferral of Coupon Payments	Unless an order is made, or an effective resolution is passed, for the winding-up of the Issuer in certain circumstances, Coupon Payments on the STICS will be mandatorily deferred on any Coupon Payment Date on which the Issuer does not satisfy the Solvency Condition or if the relevant Coupon Payment would result in the Issuer failing to satisfy the Solvency Condition immediately after such Coupon Payment. See "Terms and Conditions of the STICS – Mandatory Deferral of Coupon Payments". Any Coupon Payments that the Issuer elects not to make pursuant to the Issuer Payment Option on a Coupon Payment Date or is required not to make as a result of the terms of any of its Parity Securities, together with any Coupon Payments the Issuer does not make because the Solvency Condition is not met on a relevant Coupon Payment Date, will, so long as they remain unpaid, constitute Deferred Interest. Deferred Interest will become payable only at the next succeeding Coupon Payment Date on which payment is made on the STICS in accordance with their terms or, if sooner, upon redemption of the STICS or upon a winding-up of the Issuer. Interest will accrue on Deferred Interest at the then current rate of interest of the STICS. Deferred Interest (other than Deferred Interest which becomes payable upon the winding-up of the Issuer) will only be settled pursuant to the Alternative Coupon Satisfaction Mechanism.
Dividend and Capital Restriction	Following any Coupon Payment Date on which payment of all Coupon Payments otherwise payable on such date has not been made in full, and for so long as any payment is so deferred, each of the Issuer and the Guarantor shall not, and shall not permit any entity that it directly or indirectly controls (with the exception of ISIS Asset Management plc and its subsidiaries) to (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to the Ordinary Shares prior to the date on which the decision to defer such Coupon Payment is made), or (b) redeem, purchase or otherwise acquire any of its Public Market Parity Securities or any of its Public Market Junior Securities, in each case until the interest otherwise due and payable on the next two succeeding Coupon Payment Dates on all outstanding STICS on such date is paid in full or duly set aside or provided for in full. The Dividend and Capital Restriction will not prohibit the declaration and payment of any dividends and distributions or the making of any other payment between companies in the Group.

Optional Redemption	The STICS are perpetual securities and have no maturity date. The STICS may be redeemed in whole or in part at the option of the Issuer on 21 November 2019, or on any Reset Date thereafter, at their principal amount together with accrued interest to the Redemption Date and the aggregate amount of any Deferred Interest, subject to the Issuer giving at least six months' prior written notice to the FSA, and either receiving their consent, or receiving no objection after six months following such notice, to such redemption and subject further to the Solvency Condition being met by the Issuer both at the time of and immediately after such redemption. In addition, the Issuer may redeem the STICS in whole (but not in part) at any time upon the occurrence of a Tax Event, subject to the Solvency Condition being met by the Issuer, and subject to the Issuer giving at least six months' prior written notice thereof to the FSA and, either receiving their consent to, or receiving no objection after six months following such notice, to such redemption. See "Terms and Conditions of the STICS – Redemption and Conversion Procedures". Upon the occurrence of a Tax Event, the Issuer may also at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and either receiving consent, or receiving no objection after six months following such notice, to such exchange, at any time exchange the STICS in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the STICS and which are no less favourable to an investor than the current terms of the STICS and such undated cumulative subordinated notes will: (i) be a perpetual capital security issued by the Issuer (with a guarantee from the Guarantor given on the same material terms as the Guarantee) or a perpetual capital security issued by the Guarantor, in each such case with cumulative interest payments; (ii) rank *pari passu* with any other undated cumulative subordinated notes issued by the Issuer or the Guarantor (as the case may be); (iii) following conversion be redeemable upon any Tax Event or Regulatory Event, modified as necessary to be applicable to a class of undated cumulative subordinated notes; (iv) not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest (and accrued interest thereon) outstanding at the time of conversion will be carried over and become outstanding deferred cumulative coupon payments for the purposes of the undated cumulative subordinated notes; and (v) be listed on a Recognised Stock Exchange.

	The Issuer may redeem the STICS in whole (but not in part) at any time at the Make-Whole Redemption Price upon the occurrence of a Regulatory Event, subject to satisfaction of the Solvency Condition being met by the Issuer and the Issuer giving at least six months' prior written notice thereof to the FSA, and either receiving their consent to, or receiving no objection after six months following such notice, to such redemption. Upon the occurrence of a Regulatory Event, the Issuer and the Guarantor may also at their sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and either receiving consent, or receiving no objection after six months following such notice to such exchange, at any time exchange the STICS in whole (but not in part) to another series of capital securities of the Issuer (with a guarantee from the Guarantor given on the same terms as the Guarantee) or another series of capital securities of the Guarantor, in each such case having the same material terms as the STICS and which are no less favourable to an investor than the current terms of the STICS. The obligation of the Issuer to make payment of Deferred Interest (other than in the event of a winding-up of the Issuer may be met only through the Alternative Coupon Satisfaction Mechanism. See "Terms and Conditions of the STICS – Optional Redemption and Suspension".
Alternative Coupon Satisfaction Mechanism	Holders will always receive payments made in respect of the STICS in cash. However, if any Coupon Payment on the STICS is deferred, such payment (other than a payment which becomes payable as a result of the winding-up of the Issuer) must be satisfied by the Issuer through the Alternative Coupon Satisfaction Mechanism. This will be achieved by the Issuer issuing Ordinary Shares. The Calculation Agent has agreed to use reasonable endeavours to procure subscribers for such Ordinary Shares. The Calculation Agent will calculate in advance the number of Ordinary Shares to be issued in order to enable the Issuer to raise the full amount of the Deferred Interest and any accrued interest. See "Terms and Conditions of the STICS – Alternative Coupon Satisfaction Mechanism".
Sufficiency and Availability of Ordinary Shares	So long as the STICS are outstanding, the Issuer will be required to review the sufficiency of its authorised but unissued Ordinary Shares and the authority of its directors to issue such Ordinary Shares prior to each annual general meeting and, if necessary, propose resolutions to increase the number so that it will have available for issue enough Ordinary Shares as it reasonably considers would be required to satisfy the payment of Deferred Interest and any accrued interest, if any, together with scheduled coupon payments on the STICS for the next 12 months using the Alternative Coupon Satisfaction Mechanism.
Market Disruption Event	If a Market Disruption Event (as defined below) exists during the 14 Business Days preceding any date upon which the Issuer is due to issue Ordinary Shares to satisfy a payment in accordance with the Alternative Coupon Satisfaction Mechanism the relevant payment may be deferred until such Market Disruption Event no longer exists.

	A Market Disruption Event means (i) the occurrence or existence of any material suspension, of or limitation imposed on trading or on settlement procedures for, transactions in the Ordinary Shares through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for the Ordinary Shares), or (ii) in the reasonable 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 Ordinary Shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism or (iii) where monies are required to be converted from one currency upon sale of Ordinary Shares into another currency for payment of Deferred Interest, the occurrence of any event that makes it impracticable to effect such conversion.
Form	Bearer. The STICS will be represented initially by a Temporary Global STICS (the "Temporary Global STICS") which will be deposited outside the United States with a common depositary for Clearstream Banking, sociétè anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") on or about 21 November 2003. The Temporary Global STICS will be exchangeable for interests in a Permanent Global STICS (the "Permanent Global STICS") on or after a date which is expected to be 2 January 2004 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global STICS. Save in limited circumstances, STICS in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global STICS.
Listing	Application has been made for the STICS to be admitted to the Official List of the United Kingdom Listing Authority and for the STICS to be admitted to trading on the London Stock Exchange's market for listed securities.
Ratings	The STICS are expected to be assigned a rating of A– by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies. Inc and a rating of Baa2 by Moody's Investors Service, Inc.
Governing Law	The STICS will be governed by, and construed in accordance with, English law.

PART 2: INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular. Defined terms used herein have the meanings given to them in the "Terms and Conditions of the STICS".

Deferral of Coupon Payments

The Issuer may, at its sole discretion, pursuant to the Issuer Payment Option in Condition 4(a) elect to defer any Coupon on any Coupon Payment Date. Any Coupon Payment on the STICS will be mandatorily deferred on a Coupon Payment Date on which the Issuer does not satisfy the Solvency Condition or payment of the Coupon would result in the Issuer failing to satisfy the Solvency Condition as described below under "Terms and Conditions of the STICS – Deferred Interest".

Any Coupon Payments that the Issuer elects not to make pursuant to the Issuer Payment Option, together with any Coupon Payments that the Issuer does not make because the Solvency Condition is not met on a relevant Coupon Payment Date, shall be deferred. Deferred Interest will be payable at the earlier of the next succeeding Coupon Payment Date on which payment is made on the STICS in accordance with their terms, or upon redemption of the STICS or in the winding-up of the Issuer. Other than in the event of the winding-up of the Issuer, Deferred Interest will only be settled pursuant to the Alternative Coupon Satisfaction Mechanism. Deferred Interest will accrue interest at the then current rate of interest of the STICS.

Perpetual securities

The Issuer is under no obligation to redeem the STICS at any time and the Holders shall have no right to call for their redemption. The STICS will form part of the core capital of the Issuer and the Friends Provident Group, and, as such, it is the Issuer's intention to redeem the securities only out of growth in retained earnings equal to the principal amount or from proceeds of new capital offerings made during the life of the securities with equal or greater equity benefit.

Redemption and exchange

The STICS have no maturity date, but the Issuer may redeem the STICS in whole or in part on 21 November 2019, or any Reset Date thereafter, at their principal amount plus accrued interest, including any Deferred Interest, subject to satisfaction of certain conditions and the obligations of the Issuer to make payment of any Deferred Interest only through the Alternative Coupon Satisfaction Mechanism. Upon the occurrence of a Tax Event or a Regulatory Event (as defined herein), the Issuer may also redeem the STICS or exchange them into another series of capital securities at any time in whole but not in part as more particularly described under "Terms and Conditions of the STICS – Optional Redemption and Suspension". Certain of such Tax Events or Regulatory Events may occur at any time after the issue date and it is therefore possible that the Issuer would be able to redeem or exchange the STICS at any time after the issue date.

No limitation on issuing senior or *pari passu* securities

There is no restriction on the amount of securities which the Issuer or the Guarantor may issue which rank senior to or *pari passu* with the STICS. The issue of any such securities may reduce the amount recoverable by Holders on a winding-up of the Issuer or the Guarantor and/or may increase the likelihood of a deferral of interest payments under the STICS.

Availability of shares to implement the Alternative Coupon Satisfaction Mechanism

The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the STICS is subject to the following conditions: (i) the Issuer shall not be required to issue or sell any Ordinary Shares, or cause them to be issued or sold, at a price below their nominal value; (ii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares prior to the issue of the Ordinary Shares; and (iii) the directors of the Issuer must have all the necessary authority under English law to allot and issue a sufficient number of Ordinary Shares.

Market Disruption Event

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment by the Issuer, a Market Disruption Event exists, the payment of all such amounts owing may be deferred until the cessation of such market disruption, as more particularly described under "Terms and Conditions of the Securities – Alternative Coupon Satisfaction Mechanism – Market Disruption Event".

Restricted remedy for non-payment

In accordance with current FSA requirements for subordinated capital, in most circumstances the sole remedy against the Issuer and/or the Guarantor (as the case may be) available to the Trustee to recover any amounts owing in respect of the principal of, or interest on, the STICS will be to institute proceedings for the winding-up in England and Wales of the Issuer and/or the Guarantor (as the case may be), provided that the Trustee may not institute proceedings for winding-up of the Issuer and/or the Guarantor (as the case may be) prior to the date that is two years and one day after the failure by the Issuer and/or the Guarantor (as the case may be) to make the relevant payments when such payments become due and payable. See "Terms and Conditions of the Securities – Defaults; Limitation of Remedies".

Absence of prior public markets

The STICS constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the STICS. Although application has been made for the STICS to be admitted to the Official List of the FSA in its capacity as competent authority under the FSMA and to be admitted to trading on the market for listed securities of the London Stock Exchange, there can be no assurance that an active public market for the STICS 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 STICS can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Guarantor and other factors that generally influence the market prices of securities.

Subordination on Winding-up of Guarantor

On a winding-up of the Guarantor, there may be no surplus assets available to make payments to Holders after the Guarantor's Senior Creditors' claims have been satisfied.

Transfer of Business

The Guarantor may transfer the whole or a substantial part of its business (including its obligations under the Guarantee) without any prior approval from the Trustee, the Holders or the Couponholders in the following circumstances:

(a) The Guarantor may transfer all or a substantial part of its long-term business to another body in accordance with Part VII of the FSMA (a "Successor"). If the Guarantor transfers all or a substantial part of its long-term business to a Successor in accordance herewith, the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

(b) The Guarantor may transfer the whole or a substantial part of its long-term business to a single legal entity where such transfer is pursuant to the exercise by the FSA or the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation. If the Guarantor is required to make such a transfer, the Guarantor shall procure that there be included in the transfer all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

Deferral of Payments under the Guarantee

The Guarantor shall have the option to defer its obligation to make payments under the Guarantee to Holders in respect of (i) Deferred Interest; (ii) any Coupon Payment; (iii) any amounts due and payable by the Issuer on redemption of the STICS; or (iv) any other amounts due and payable under the Conditions. The Guarantor may elect to defer the payment of such amounts for such period of time as it determines. If the Guarantor does elect to make such a deferral, the obligation to make payment of such amounts shall remain outstanding until such time as they are paid in full by the Guarantor and such amounts shall in any event (to the extent not paid earlier) be payable by the Guarantor in a winding-up of the Guarantor.

Obligations of the Guarantor on Winding-Up of the Issuer

On a winding-up of the Issuer, the Guarantor shall meet the payment obligations of the Issuer that would otherwise have arisen under the Conditions. The Guarantor shall, in addition, have the benefit of all the provisions applicable to the Issuer in the Conditions (including, without limitation, the Issuer's ability to redeem the STICS). In such circumstances, however, no amounts shall be payable under the Guarantee prior to the time at which such amounts would have fallen due under the STICS themselves in the absence of the winding-up of the Issuer.

Guarantor Alternative Coupon Satisfaction Mechanism

On a winding-up of the Issuer, if the Guarantor is obliged to satisfy its obligation to pay any Deferred Interest then the directors of the Guarantor shall use their best endeavours to satisfy such payment through the Guarantor Alternative Coupon Satisfaction Mechanism (as set out in Condition 6). If, after a period of six months, the directors of the Guarantor determine in good faith that it has not been possible and it will not be reasonably possible to satisfy such amounts through the application of this mechanism in relation to the ordinary shares of the Guarantor then the obligation of the Guarantor to pay such Deferred Interest then outstanding shall terminate.

Other than in a winding-up of the Guarantor, the Guarantee is not a liability attributable to the long-term insurance fund

The Guarantee shall not constitute a liability attributable to the long-term insurance fund of the Guarantor and, accordingly, except in a winding-up of the Guarantor, payments under the Guarantee shall only be met from assets outside such fund. The liability of the Guarantor under the Guarantee will not exceed the extent of the Guarantor's assets available to make payment in respect thereof.

PART 3: TERMS AND CONDITIONS OF THE STICS

The following terms and conditions, subject to alteration (and except for the paragraphs in italics), are the terms and conditions of the STICS (the "Terms and Conditions") which will be endorsed on each STICS in definitive form if issued:

The STICS are constituted by the Trust Deed. The issue of the STICS was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 23 October 2003 and a resolution of a committee of the Board of Directors of the Issuer passed on 4 November 2003 and the giving of the Guarantee was authorised pursuant to a resolution of the Board of Directors of the Guarantor passed on 22 October 2003. 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 Holders and the Couponholders at the registered office of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of each of the Paying Agents. The 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 STICS are serially numbered and in bearer form in denominations of £1,000, £10,000 and £100,000 each with Coupons and one Talon attached on issue. STICS of one denomination may not be exchanged for STICS of another denomination.

(b) Title

Title to the STICS, Coupons and Talons will pass by delivery. The bearer of any STICS 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 Holder.

2. Status, Subordination and Guarantee

(a) Status and Subordination of the STICS

(i) *Status*: The STICS constitute unsecured, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.

(ii) *Subordination*: The rights and claims of the Holders and Couponholders against the Issuer under the STICS in respect of the principal, amounts due and payable on redemption and any Deferred Interest and Coupon Payments are subject to Condition 2(c) and subordinated on a winding-up to the rights and claims of its Senior Creditors, including the claims of any subordinated debt security holders or the claims of holders of any other series of debt securities which, in each case, do not or are not expressed to rank equally with or junior to the STICS.

(b) Status and Subordination of the Guarantee

(i) *Status*: The Guarantor has (subject as provided in this Condition 2(b)) in the Trust Deed irrevocably guaranteed the due and punctual payment of all principal, Coupon Payments, Deferred Interest and other sums from time to time payable by the Issuer in respect of the STICS and the Coupons and all other monies payable by the Issuer under or pursuant to the Trust Deed. The obligations of the Guarantor under such guarantee (the "Guarantee") constitute direct, unsecured and subordinated obligations of the Guarantor.

(ii) *Obligations of the Guarantor*: For the purpose of determining whether any principal or Coupon Payment, Deferred Interest or any other sum is, from time to time, due and payable by the Issuer for the purposes of the obligations of the Guarantor under the Guarantee (as referred to in Condition 2(b)(i) above):

(1) payments of principal and/or Coupon Payments and/or Deferred Interest in respect of the STICS shall be deemed to be due and payable on the relevant Coupon Payment Date or Redemption Date (as the case may be) by the Issuer notwithstanding that any of Conditions 4(a), 4(b), 6(b), 6(c) or 7(f) apply, provided that, in the event that any Holder exercises any rights conferred upon it by the Guarantee in respect of any such amounts and has received payment in full and final satisfaction of such amounts, then this shall be treated as satisfying such Holder's right to payment of such amounts under the terms of the STICS themselves; and

(2) where an order is made, or an effective resolution is passed, for the winding-up of the Issuer in the circumstances set out in Condition 3(a), the Guarantor shall be obliged under the Guarantee to meet the payment obligations of the Issuer that would otherwise have arisen under the Terms and Conditions of the STICS and shall have the benefit of all the provisions applicable to the Issuer in the Terms and Conditions (including, without limitation, the Issuer's ability to redeem the STICS in the circumstances set out in Condition 7), and, accordingly, all references to the Issuer shall be construed as references to the Guarantor, provided that in such circumstances, no amounts shall be payable under the Guarantee prior to the time at which such amounts would have fallen due under the STICS themselves in the absence of the winding-up of the Issuer under Condition 3(a).

(iii) *Deferral of payments under the Guarantee*: Notwithstanding any other provision in these Terms and Conditions or the Trust Deed, the Guarantor shall have the option to defer its obligation to make payments under the Guarantee to Holders in respect of (i) Deferred Interest (ii) any Coupon Payment (iii) any amounts due and payable by the Issuer on redemption of the STICS in accordance with Condition 7 or (iv) any other amounts due and payable pursuant to the Terms and Conditions (such amounts collectively being "Relevant Amounts"). The Guarantor may elect to defer the payment of such Relevant Amounts for such period of time as the Guarantor shall determine, provided that the obligation to make such Relevant Amounts shall remain outstanding until such time as they are paid in full by the Guarantor and such Relevant Amounts shall, for the avoidance of doubt, be payable by the Guarantor in a winding-up of the Guarantor as provided in Condition 3(b). Any payment which for the time being is not made by virtue of this Condition 2(b)(iii) shall not constitute a default for any purpose (including, but without limitation, Condition 9) on the part of the Guarantor.

For the avoidance of doubt, all amounts payable by the Issuer in respect of (i) Deferred Interest, (ii) any Coupon Payments, (iii) any amounts due and payable pursuant to the redemption of the STICS in accordance with Condition 7 or (iv) any other amount due and payable pursuant to the Conditions shall remain due and payable by the Issuer to the extent provided for by these Terms and Conditions and no provision of the Trust Deed or these Terms and Conditions relating to the Guarantee shall be deemed to relieve the Issuer of any such liability.

(iv) *Subordination*: The rights and claims of the Holders and the Couponholders against the Guarantor under the Guarantee are subject to Condition 2(c) and subordinated on a winding-up to the rights and claims of its Senior Creditors, including the claims of any subordinated debt security holders or the claims of holders of any other series of debt securities which in, each case, do not or are not expressed to rank equally with or junior to the STICS.

(v) *Limited Recourse*: The liability of the Guarantor under the Guarantee will not exceed the extent of the Guarantor's assets available to make payment in respect thereof.

(vi) *Winding-Up Claims of the Guarantor*: Without prejudice to Deferred Interest becoming due following a Resumption Date where payments are being made under the Guarantee as described in 2(b)(ii)(2) above, amounts payable under the Guarantee in respect of which the Solvency Condition referred to in Condition 2(c) is not satisfied on the date upon which the same would otherwise be due and payable ("Winding-Up Claims of the Guarantor") will be payable by the Guarantor in a winding-up of the Guarantor as provided in Condition 3(b). A Winding-Up Claim of the Guarantor shall not bear interest.

(vii) *Not a long term fund liability*: The Guarantee shall not constitute a liability attributable to the long-term insurance fund of the Guarantor and, accordingly, except in a winding-up of the Guarantor, payments under the Guarantee shall only be met from assets outside such fund.

(c) Solvency Condition

Except in a winding-up, or if the FSA has indicated that it has no objection to such payment, (i) all payments on the STICS will be conditional upon the Issuer satisfying the Solvency Condition and (ii) all payments on the Guarantee will be conditional upon the Guarantor satisfying the Solvency Condition, in each case both at the time of and immediately after any such payment and, accordingly, neither the Issuer (in the case of (i)) nor the Guarantor (in the case of (ii)) will make any payment and any such payment shall not be so payable. Neither the Issuer nor the Guarantor, as applicable, may redeem or purchase any of the STICS unless the Issuer, or, as the case may be, the Guarantor, satisfies the Solvency Condition both at the time of and immediately after any such redemption or purchase. For this purpose, the Guarantor shall satisfy the Solvency Condition if it is able to meet its Regulatory Capital Requirement for the time being and the Issuer shall be deemed to satisfy its Solvency Condition if the Group meets its Regulatory Capital Requirement for the time being.

A report as to whether the Issuer or Guarantor (as the case may be) has satisfied the Solvency Condition, by two directors of the Issuer or Guarantor (as the case may be) or, in certain circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed), or, if there is a winding-up of the Issuer or Guarantor in England and Wales, the liquidator of the Issuer or Guarantor (as the case may be) shall, in the absence of proven or manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee and any holder of STICS as correct and sufficient evidence thereof. In a winding-up, the amount payable on the STICS will be determined in accordance with the subordination provisions described above.

(d) Set-Off

By acceptance of the STICS, each Holder and the Trustee, on behalf of such Holders, will be deemed to have waived any right of set-off or counterclaim that such Holders might otherwise have against the Issuer or the Guarantor (as the case may be) whether prior to or in bankruptcy or winding-up. Notwithstanding the preceding sentence, if any of the rights and claims of any Holder are discharged by set-off, such Holder will immediately pay an amount equal to the amount of such discharge to the Issuer or the Guarantor or, if applicable, the liquidator or trustee or receiver of the Issuer or the Guarantor and, until such time as payment is made, will hold a sum equal to such amount in trust for the Issuer or the Guarantor or, if applicable, the liquidator or the trustee or receiver in the Issuer's or the Guarantor's winding-up. Accordingly, such discharge will be deemed not to have taken place.

3. Winding-Up

(a) Winding-Up of the Issuer

If at any time an order is made, or an effective resolution is passed, for the winding-up in England and Wales 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 of the STICS (in lieu of any other payment by the Issuer) such amount, if any, that would have been payable in respect thereof as if, on the day prior to the commencement of the winding-up and thereafter, the Holders were the holders of preference shares (as at the date thereof) in the capital of the Issuer ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Issuer, if any, and any other Parity Securities of the Issuer then outstanding, junior to its Senior Creditors and in priority to all holders of its Junior Securities, assuming that the holders of such preference shares were entitled to receive as a return of capital in such winding-up an amount equal to the unpaid principal amount of the STICS or other amounts due and payable and unpaid on redemption of the STICS, together with any unpaid Deferred Interest and any other interest that has accrued and is unpaid in respect of the STICS.

(b) Winding-up of the Guarantor

If at any time an order is made, or an effective resolution is passed, for the winding-up in England and Wales of the Guarantor (except, in such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Guarantor of a successor in business of the Guarantor (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), there shall be payable by the Guarantor in respect of each of the STICS (in lieu of any other payment by the Guarantor) such amount, if any, as would have been payable to the Holder of such STICS under the Guarantee if, on the day prior to the commencement of the winding-up and thereafter, such Holder were the holder of preference shares in the capital of the Guarantor ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Guarantor, if any, and any other Parity Securities of the Guarantor then outstanding, junior to its Senior Creditors and in priority to all holders of its Junior Securities, assuming that the holders of such preference shares were entitled to receive as a return of capital in such winding-up an amount equal to the amount payable to Holders under the Guarantee.

As a consequence of the subordination conditions, the Holders may recover less rateably than the holders of the Issuer's or the Guarantor's unsubordinated liabilities and the holders of certain of the Issuer's or the Guarantor's subordinated liabilities. If, in any winding-up of the Issuer or the Guarantor (as the case may be), the amount payable on or in respect of any STICS and any claims ranking equally with the STICS or the Guarantee (as the case may be) are not paid in full, the Holders and the holders of other claims ranking equally will share rateably in any such distribution of assets of the Issuer or the Guarantor (as the case may be) in proportion to the respective amounts to which they are entitled.

(c) Acknowledgements and Undertakings by the Holders

Each Holder acknowledges that amounts raised under the STICS are intended to be applied by the Issuer in subscribing for non-cumulative preference shares to be issued by the Guarantor ("Subscribed Securities"), that those subscribed funds are intended to represent core capital of the Guarantor and that if the Guarantor were at any stage to become balance sheet insolvent (whereby the amount of its assets is exceeded by the amount of its liabilities (including its contingent and prospective liabilities)) in an amount which does not exceed the principal amount of the Subscribed Securities or the Guarantor's contingent exposure under the Guarantee (whichever is the greater), then:

(i) the Guarantor and its directors may continue to trade the business of the Guarantor so long as, in so doing, they are acting in what they reasonably consider to be the best interests of its Senior Creditors, even though their so doing may not necessarily be in the best interests of the Holders; and

(ii) such Holder shall not have, nor shall it assert, any claim against either the Guarantor or any of its directors which it might otherwise have had as a result of the Guarantor and its directors having continued to trade the business of the Guarantor in the circumstances described above; and

(iii) such Holder shall not sanction or approve any proposed action by a subsequently-appointed insolvency officeholder to the Guarantor against any of the directors or other officers of the Guarantor which arises out of the Guarantor having continued to trade its business in the circumstances described in Condition 3(c)(i) above; and

(iv) such Holder shall not support, or seek to adopt, any winding-up petition presented against the Guarantor by any third party (including, without limitation, a Senior Creditor) unless at that time the Holder would itself have been entitled to present such a petition pursuant to the terms hereof.

Each Holder further acknowledges that the STICS are intended to represent core capital of the Issuer and if the Issuer were at any stage to become balance sheet insolvent (whereby the amount of its assets is exceeded by the amount of its liabilities (including its contingent and prospective liabilities)) in an amount which does not exceed the principal amount of the STICS, then each Holder will repeat the acknowledgements set out in paragraphs (i) to (iv) (inclusive) above with respect to the Issuer.

4. Deferred Interest

(a) Issuer Payment Option

Pursuant to the Issuer Payment Option, the Issuer may elect in its sole discretion to defer Coupon Payments on any Coupon Payment Date.

(b) Mandatory Deferral of Coupon Payments

Unless an order is made, or an effective resolution is passed, for the winding-up of the Issuer in the circumstances set out in Condition 3(a), Coupon Payments on the STICS will be mandatorily deferred on any Coupon Payment Date on which either (i) the Issuer does not satisfy the Solvency Condition or (ii) payment of the relevant Coupon would result in the Issuer failing to satisfy the Solvency Condition immediately after the Coupon Payment Date.

(c) Deferred Interest

Any Coupon in respect of the STICS not paid on a Coupon Payment Date, by virtue of Conditions 4(a) or 4(b) (as it applies to the Issuer or the Guarantor (by virtue of Condition 2(b)(ii)(2)) or as a result of any restriction imposed under the terms of any of its Parity Securities, shall, so long as the same remains unpaid, constitute "Deferred Interest". Any Deferred Interest will, subject to Condition 2, automatically become immediately due and payable upon the earliest of the following (the "Resumption Date"):

(i) the date on which the Issuer resumes payment of Coupons on the STICS;

(ii) the date fixed for any redemption or purchase of STICS by or on behalf of the Issuer pursuant to Condition 7; and

(iii) the commencement of the winding-up of the Issuer.

The Issuer shall satisfy its obligation to pay Deferred Interest on a Resumption Date falling within sub-paragraph (i) and (ii) above only in accordance with the Alternative Coupon Satisfaction Mechanism pursuant to Condition 6.

Interest will accrue on Deferred Interest at the then current rate of interest of the STICS.

(d) No Default

Notwithstanding any other provision in these Terms and Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Conditions 4(a) or 4(b) shall not constitute a default for any purpose (including, without limitation, Condition 9) on the part of the Issuer.

A Holder is required to notify the Issuer if at any time such Holder owns 10 per cent. or more of the equity share capital of the Issuer, and the Issuer has the right to suspend Coupon Payments to any such Holder. Coupon Payments made to Holders generally will be deemed to have been paid in respect of any such suspended payment. Any payments so suspended will be deemed satisfied with respect to the STICS of such Holder and may not be subsequently claimed.

(e) Dividend and Capital Restriction

If, following any Coupon Payment Date, payment of all Coupon Payments or any relevant Deferred Interest to be paid on such date is not made in full, each of the Issuer and the Guarantor shall not, and shall not permit any entity it directly or indirectly controls (with the exception of ISIS

Asset Management plc and its Subsidiaries), to (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to its Ordinary Shares prior to the date on which the decision to defer the Coupon Payment is made), or (b) to redeem, purchase or otherwise acquire any of its Public Market Parity Securities or any of its Public Market Junior Securities, in each case unless or until an amount equal to the Coupon Payments and Deferred Interest (without prejudice to Condition 4(c)) otherwise due and payable on the next two succeeding Coupon Payment Dates on all outstanding STICS on such date is paid in full or duly set aside or provided for in full.

Following a Resumption Date on which the Issuer is unable to issue sufficient Ordinary Shares to enable payment in full of all Deferred Interest to be paid on such date, neither the Issuer nor the Guarantor shall permit any entity that it directly or indirectly controls, (with the exception of ISIS Asset Management PLC and its Subsidiaries) (a) to declare or pay a dividend or distribution or make any other payment on any of its respective Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to the Ordinary Shares prior to such Resumption Date) or (b) to redeem, purchase or otherwise acquire any of its Parity Securities or any of its Junior Securities, in each case until such corporate authorisations as are required to issue the necessary Ordinary Shares are obtained and all Deferred Interest to be satisfied has been paid in full or duly set aside or provided for in full.

In the event that in accordance with Condition 2(b)(iii), the Guarantor shall exercise its right to defer its obligation to make payments under the Guarantee to Holders, each of the Issuer and the Guarantor shall not and shall not permit any entity it directly or indirectly controls, (with the exception of ISIS Asset Management PLC and its Subsidiaries) to (a) declare or pay a dividend or distribution or make any other payment on any of its Parity Securities or on any of its Junior Securities (other than a dividend declared by the Issuer with respect to its Ordinary Shares prior to the date on which the decision to defer the Coupon Payment is made), or (b) to redeem, purchase or otherwise acquire any of its Public Market Parity Securities or any of its Public Market Junior Securities, in each case unless or until the interest otherwise due and payable on the next two succeeding Coupon Payment Dates on all outstanding STICS on such date is paid in full or duly set aside or provided for in full.

The restrictions set out in this Condition 4(e) do not apply to (i) the declaration and payment of any dividends and distributions or the making of any other payment between companies in the Group or (ii) payments made by the Guarantor to policyholders or other customers, or transfers to or from the fund for future appropriations.

For the purposes of this provision, the payment (or declaration of payment) of a dividend or distribution on Junior Securities and Parity Securities shall be deemed to include the making of any interest, coupon or dividend payment (or payment under any guarantee in respect thereof) and the redemption, purchase or other acquisition of such securities (save where the funds used to redeem, purchase or acquire those securities are derived from an issue of Junior Securities or Parity Securities (i) made at any time within the six month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same ranking or ranking junior on a return of assets on a winding-up or in respect of a distribution or payment of interest, coupons or dividends and/or any other amounts thereunder to those securities being redeemed, purchased or acquired). The Trustee shall be entitled to rely on a certificate signed by two directors of the Issuer or the Guarantor (as the case may be) as to whether the redemption, purchase or acquisition falls within the exception set out above and, if the Trustee does so rely, such certificate shall, in the absence of proven or manifest error, be conclusive and binding on the Issuer or the Guarantor (as the case may be) and the Holders.

5. Coupons

(a) Coupon Rate

The STICS bear interest from (and including) 21 November 2003 to (but excluding) 21 November 2019, at a fixed rate of 6.875 per cent. per annum on the outstanding principal amount of the STICS (the "Initial Coupon Rate"). From (and including 21 November 2019), the coupon rate payable on the STICS, in respect of each Coupon Calculation Period, will be the rate per annum which is the aggregate of 2.97 per cent. and the Gross Redemption Yield of the Benchmark Gilt (the "Reset

Coupon Rate") in respect of such Coupon Calculation 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 on Reuters Page "DMO/Bench1" (or such other page as may replace it for the purpose of displaying such information) at 3.00 p.m. (London time) on the relevant Determination Date, *provided* that if such price does not appear on Reuters Page "DMO/Bench1" on the relevant Determination Date, then the price of the Benchmark Gilt shall be 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 Market Makers at 3.00 p.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London.

(b) Coupon Payments

Coupon Payments on the STICS will, subject as set out in Condition 4, be payable from the Issue Date semi-annually in arrear on 21 May and 21 November of each year and will accrue from (and including) the immediately preceding Coupon Payment Date (or the Issue Date, 21 November 2003 with respect to interest payable on 21 May 2004), to (but excluding) the relevant Coupon Payment Date.

Where it is necessary to compute an amount of interest in respect of any STICS for a period which is not a Coupon Period, then this shall be calculated on the basis of the actual number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period, divided by the actual number of days from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Coupon Payment Date.

The STICS will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 7(b), (c) or (d) unless, upon due presentation, payment of principal in respect of the STICS is improperly withheld or refused, in which event interest shall continue to accrue, and shall be payable, as provided in these Terms and Conditions up to (but excluding) the Relevant Date.

(c) Publication of Reset Coupon Rate

The Issuer shall cause the Principal Paying Agent to give notice of the Reset Coupon Rate determined in accordance with this Condition 5 in respect of each relevant Coupon Calculation Period to the Trustee, the other Paying Agents, any stock exchange or other relevant authority on which the STICS are for the time being listed or admitted to trading and, in accordance with Condition 16, the Holders of the STICS as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Reset Coupon Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of proven or manifest error.

(d) Determination or Calculation by Trustee

The Trustee may, if the Principal Paying Agent does not at any relevant time for any reason (but without any liability accruing to the Trustee as a result) determine the Reset Coupon Rate in accordance with this Condition 5, determine the Reset Coupon Rate in respect of the relevant Coupon Calculation Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition 5), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Principal Paying Agent.

(e) Determinations of Principal Paying Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, whether by the Principal Paying Agent or the Trustee, shall (in the case of the Principal Paying Agent, in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Holders or the Issuer or the Guarantor shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties or discretions.

6. Alternative Coupon Satisfaction Mechanism

(a) *General*

Unless an order is made, or an effective resolution is passed, for the winding-up of the Issuer in the circumstances set out in Condition 3(a) (whereupon Condition 6(e) below shall apply), the Issuer must satisfy its obligation to pay any Deferred Interest or any Coupon Payment then accrued but not paid (arising other than on the winding-up of the Issuer) only in accordance with the procedures described below.

The obligation of the Issuer to pay any Deferred Interest in accordance with the Alternative Coupon Satisfaction Mechanism will be satisfied as follows (subject to any modifications the Issuer and Trustee may agree, or, if the Issuer and Trustee so choose, as may be recommended by an independent investment bank appointed by the Issuer (and approved by the Trustee) at the Issuer's expense, having regard to current market practice with respect to share placement):

(i) the Issuer shall give a notice of the forthcoming Resumption Date in accordance with Condition 16;

(ii) not later than 14 Business Days prior to the Resumption Date, the Calculation Agent shall determine the number of Ordinary Shares which, in the opinion of the Calculation Agent, have an aggregate fair market value of not less than the aggregate amount of Deferred Interest and any accrued interest thereon and Additional Amounts after payment of any taxes, duties, costs and expenses payable by the Issuer in and associated with the issue of the Ordinary Shares (the "Alternative Coupon Satisfaction Amount");

(iii) no later than 10 Business Days prior to the Resumption Date, the Calculation Agent, or an appointed intermediary, shall place such number of Ordinary Shares in the market;

(iv) no later than the close of business on the seventh Business Day prior to the Resumption Date, the Calculation Agent, or an appointed intermediary, shall notify the Issuer of the number of Ordinary Shares for which it has procured subscribers;

(v) the Issuer undertakes, as soon as reasonably practicable following such notification, but not later than the sixth Business Day prior to the Resumption Date, and subject to having necessary corporate authorisations in place, to issue and allot such Ordinary Shares to the subscribers who have agreed to subscribe for them;

(vi) if, after the operation of the above procedures, there would, in the opinion of the Calculation Agent, be a shortfall of proceeds towards the satisfaction of the Alternative Coupon Satisfaction Amount payable on the Resumption Date, the Calculation Agent shall use its reasonable endeavours to find subscribers for further Ordinary Shares and the Issuer shall, subject to having the necessary corporate authorisations in place, issue and allot such further Ordinary Shares to the subscribers who have agreed to subscribe for them in accordance with these provisions to try to ensure that a sum (after payment of any taxes, duties, costs and expenses payable by it and associated with the issue of the shares) at least equal to the Alternative Coupon Satisfaction Amount is available on the Business Day prior to the Resumption Date to make the payments in full on the Resumption Date; provided that, if, despite the operation of the above provisions, such a shortfall exists on the Business Day preceding the Resumption Date, the Issuer may either pay an amount equal to such shortfall as soon as practicable to the Trustee (or the Principal Paying Agent) or, subject to having the necessary corporate authorisations in place, the Issuer shall continue to issue and allot the relevant number of Ordinary Shares until the Trustee (or the Principal Paying Agent) shall have received funds on behalf of the Issuer equal to the full amount of such shortfall, and *provided further* that no part of the Alternative Coupon Satisfaction Amount shall be paid to a Holder until such time as the Issuer is able to pay a sum at least equal to the Alternative Coupon Satisfaction Amount in full in accordance with the Alternative Coupon Satisfaction Mechanism on the Resumption Date;

(vii) the Issuer shall transfer or arrange for the transfer of the issue proceeds raised from the operation of the provisions set out in Condition 6(a)(iii)-(vi), together with any amounts the Issuer would otherwise pay other than out of issue proceeds to make up for any shortfall, to satisfy the Alternative Coupon Satisfaction Amount to the Trustee (or the Principal Paying Agent) on the Business Day preceding the Resumption Date for payment by the Trustee (or the Principal Paying Agent) on the Resumption Date, towards the satisfaction on behalf of the Issuer of the Alternative Coupon Satisfaction Amount;

(viii) if, pursuant to the Alternative Coupon Satisfaction Mechanism, proceeds are raised in excess of the amount required to pay the applicable Alternative Coupon Satisfaction Amount plus the claims for the fees, costs and expenses to be borne by the Issuer in connection with using the Alternative Coupon Satisfaction Mechanism, any remaining proceeds shall be paid to (or may be retained by) the Issuer; and

(ix) for the avoidance of doubt, the Issuer may satisfy its obligations (in part or in whole) to pay any Deferred Interest by selling ordinary shares which are held by it as treasury shares (as defined in the Companies Act 1985, as amended, supplemented or replaced from time to time) ("Treasury Shares"). Accordingly, (a) references in this Condition 6 and in the definition of Market Disruption Event to Ordinary Shares and to the allotment, issue and subscription of or for Ordinary Shares shall be deemed to include references to Treasury Shares and the sale of Treasury Shares, and (b) references in this Condition 6 to the Issuer's authority to allot and issue Ordinary Shares or authorised but unissued Ordinary Shares shall be deemed to include references to the Issuer's authority to sell Treasury Shares.

If the Issuer is required to make payments of the Alternative Coupon Satisfaction Amount in accordance with the Alternative Coupon Satisfaction Mechanism, the proceeds from the issue of Ordinary Shares or sale of Treasury Shares pursuant to the Alternative Coupon Satisfaction Mechanism will be paid to the Holders by the Trustee or Principal Paying Agent.

(b) Sufficiency and Availability of Ordinary Shares

The ability of the Issuer to use the Alternative Coupon Satisfaction Mechanism to satisfy its payment of Deferred Interest on the STICS on a relevant Resumption Date is subject to the following conditions:

(i) the Issuer shall not be required to issue any Ordinary Shares, or cause them to be issued, at a price below their nominal value;

(ii) the Issuer must have a sufficient number of authorised but unissued Ordinary Shares prior to the issue of the Ordinary Shares in accordance with Condition 6(a); and

(iii) the directors of the Issuer must have the necessary authority under English law to allot and issue a sufficient number of Ordinary Shares in accordance with Condition 6(a)(v) and 6(a)(vi).

At the date of this Offering Circular, the Issuer has a sufficient number of authorised but unissued Ordinary Shares and the directors of the Issuer have the necessary authority to issue such Ordinary Shares to raise sufficient funds to make the Coupon Payments required to be made in respect of the STICS during the next 12-month period, assuming the Alternative Coupon Satisfaction Mechanism were to be used for each Coupon Payment during such 12-month period and on the basis of the current market price of the Ordinary Shares at the date of this Offering Circular.

The Issuer will, for so long as any STICS remain outstanding, review its ordinary share price and relevant exchange rates prior to each annual general meeting of its shareholders. If the Issuer determines, as the result of any such review, that it does not have a sufficient number of authorised but unissued Ordinary Shares to permit it to issue at that date a number of Ordinary Shares equal to the amount of Deferred Interest, if any, outstanding together with scheduled Coupon Payments for the next 12 months (or such longer period as, in the opinion of the board of directors of the Issuer, is prudent having regard to amounts which may become payable through the Alternative Coupon Satisfaction Mechanism), and/or if the directors of the Issuer do not have the necessary authority to allot and issue such number of Ordinary Shares, then, at the next annual general meeting of the

Issuer, the Issuer shall propose a resolution to increase the number of authorised but unissued Ordinary Shares and the directors' authority to allot and issue Ordinary Shares to the level that would enable the Issuer to issue at that date a sufficient number of Ordinary Shares to enable payment of Deferred Interest, if any, outstanding together with scheduled Coupon Payments for the next 12 months pursuant to the Alternative Coupon Satisfaction Mechanism.

(c) Market Disruption Event

If a Market Disruption Event exists during the 14 Business Days preceding any Resumption Date, then if such Resumption Date is a Redemption Date or a Coupon Payment Date, the related payment of Deferred Interest (and any accrued interest) may, subject to certain conditions, be deferred until such Market Disruption Event no longer exists. A market disruption deferral will not constitute a STICS Default, *provided* that if any Deferred Interest (and any accrued interest) has not been paid, or an amount set aside for payment, within 14 days after the date on which any such Market Disruption Event is no longer continuing, such failure will constitute a STICS Default. Interest will not accrue on Deferred Interest during a Market Disruption Event.

(d) Listing

The Issuer shall ensure (to the extent possible) that, at the time when any Ordinary Shares are issued pursuant to Condition 6, such Ordinary Shares are listed on the Official List of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

(e) Guarantor Alternative Coupon Satisfaction Mechanism

If the Guarantor is obliged to satisfy its obligation to pay any amounts deferred in accordance with Condition 4(a) or 4(b) (as it applies to the Guarantor by virtue of Condition 2(b)(ii)(2)) or if the Guarantor elects to satisfy any Deferred Interest or Coupon Payment deferred under the Guarantee in accordance with Condition 2(b)(iii) the directors of the Guarantor shall use their best endeavours to satisfy the payment of any Deferred Interest or other such amount then outstanding by applying the mechanism set out in this Condition 6 to the ordinary shares of the Guarantor. If, after a period of six months, the directors of the Guarantor determine in good faith that it has not been possible and it will not be reasonably possible to satisfy such amounts through the application of this mechanism in relation to the ordinary shares of the Guarantor, the obligation of the Guarantor to pay such amounts in accordance with this Condition 6(e) shall terminate and the obligation of the Guarantor to pay such amounts shall be deferred and shall be payable in a winding-up of the Guarantor (and not before) and the Guarantor shall notify the Holders accordingly in accordance with Condition 16.

7. Optional Redemption and Suspension

(a) No Maturity Date

The STICS are perpetual securities in respect of which there is no maturity date. The STICS are not redeemable at the option of the Holders at any time.

(b) Issuer's Call Option

The Issuer may redeem the STICS in whole or in part, at its option, on 21 November 2019, or on any Reset Date thereafter, subject to the Solvency Condition being met both at the time of and immediately after such redemption and subject, further, to the Issuer giving at least six months' prior written notice to the FSA and having received consent to such redemption from the FSA, or the period of six months following such notice having expired without any objection to such redemption having been received from the FSA. STICS to be redeemed will be drawn for redemption at such place and individually by lot or otherwise in a manner as may be approved by the Trustee.

The Issuer is permitted to satisfy its obligation to pay any Deferred Interest due upon a redemption only in accordance with Condition 6.

(c) Tax Event Redemption or Tax Event Conversion

The Issuer may redeem the STICS in whole (but not in part) upon the occurrence of a Tax Event subject to the Solvency Condition being met both at the time of and immediately after such redemption and the Issuer giving at least six months' prior written notice thereof to the FSA and having received consent to such redemption from the FSA, or the period of six months following such notice having expired without any objection to such redemption having been received from the FSA.

Upon the occurrence of a Tax Event, the Issuer may also, at its sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and having received consent from the FSA, or the period of six months following such notice having expired without any objection having been received from the FSA, at any time exchange the STICS in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having the same material terms as the STICS and which are no less favourable to an investor than the current terms of the STICS, and such undated cumulative subordinated notes will, without limitation:

(i) be a perpetual capital security issued by the Issuer (with a guarantee from the Guarantor given on the same material terms as the Guarantee) or a perpetual capital security issued by the Guarantor, in each such case with cumulative interest payments;

(ii) rank *pari passu* with any other undated cumulative subordinated notes issued by the Issuer or Guarantor (as the case may be);

(iii) following conversion be redeemable upon any Tax Event or Regulatory Event, modified as necessary to be applicable to a class of undated cumulative subordinated notes;

(iv) not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest and accrued interest thereon outstanding at the time of conversion will be carried over and become outstanding deferred cumulative interest payments for the purposes of the undated cumulative subordinated notes; and

(v) be listed on a Recognised Stock Exchange.

If, following a Tax Event, the Issuer gives notice to the FSA of, and the FSA objects to, the proposal to convert or exchange the STICS into another series of capital securities constituting undated cumulative subordinated notes, the Issuer shall be entitled to redeem the STICS as set out above.

(d) Regulatory Event Redemption or Regulatory Event Conversion

The Issuer may redeem the STICS in whole (but not in part) at any time upon the occurrence of a Regulatory Event, subject to the Solvency Condition being met both at the time of and immediately after such redemption and the Issuer giving at least six months' prior written notice thereof to the FSA and having received consent to such redemption from the FSA, or the period of six months following such notice having expired without any objection to such redemption having been received from the FSA.

Upon the occurrence of a Regulatory Event, the Issuer and the Guarantor may also at their sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and having received consent from the FSA, or the period of six months following such notice having expired without any objection having been received from the FSA, at any time convert or exchange the STICS in whole (but not in part) to another series of capital securities of the Issuer (with a guarantee from the Guarantor given on the same material terms as the Guarantee) or another series of capital securities of the Guarantor in each such case, having the same material terms as the STICS and which are no less favourable to an investor than the current terms of the STICS.

(e) Redemption and Conversion Procedures

(i) Any redemption under paragraph (b) above will be at a redemption price equal to the outstanding principal amount of the STICS;

(ii) Any redemption under paragraph (c) as a result of the occurrence of any of the circumstances described in Clauses (ii) or (iv) of the definition of Tax Event (set out below) will be at a redemption price equal to the outstanding principal amount of the STICS and any redemption as a result of the occurrence of any of the circumstances described in Clause (i) or (iii) of the definition of Tax Event will be at a redemption price equal to the Make-Whole Redemption Price of the STICS; and

(iii) Any redemption under paragraph (d) above will be at a redemption price equal to the Make-Whole Redemption Price of the STICS,

and, in the case of redemption under paragraphs (b), (c) and (d) above, shall include all accrued interest (including any Deferred Interest) to the Redemption Date and the aggregate amount of any Deferred Interest and shall be paid on not less than 30 nor more than 60 days' notice to the Holders. If, upon due presentation, payment of principal on the STICS is improperly withheld or refused, then interest shall continue to accrue and shall be payable, as provided in these Terms and Conditions, up to (but excluding) the Relevant Date.

Any conversion of the STICS into another series of capital securities under Condition 7(c) or 7(d) above shall be made on not less than 30 nor more than 60 days' notice to the Holders. The Issuer is permitted to satisfy its obligation to pay any Deferred Interest due upon redemption only in accordance with Condition 6.

Prior to the giving of any notice of redemption or conversion following the occurrence of a Tax Event or Regulatory Event, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption or conversion (as the case may be) and setting forth a statement of facts showing that the conditions precedent to the right to redeem or convert have occurred, and (b) in the case of a Tax Event, an opinion of independent legal advisers of recognised standing to the effect that the Issuer is entitled to exercise its right of redemption or conversion (as the case may be).

Any notice of redemption will be irrevocable and will provide details of the Redemption Date. If the redemption price in respect of any STICS is improperly withheld or refused and is not paid by the Issuer, interest on the outstanding principal amount of such STICS will continue to be payable until the redemption price is actually paid. Failure to pay or set aside for payment (i) the principal amount of the STICS to be redeemed on the Redemption Date or (ii) any accrued but unpaid payments and any Deferred Interest within 14 days of the Redemption Date, if applicable, will in each such case constitute a STICS Default.

(f) Suspension

Following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement in which the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, unless such event is a Permitted Restructuring and a Permitted Restructuring Arrangement is put into place within six months of the occurrence of the Permitted Restructuring, an independent investment bank appointed by the Issuer (at the Issuer's (failing which the Guarantor's) expense) and approved by the Trustee will determine what amendments (if any) to the terms and conditions of the STICS, the Trust Deed and any other relevant documents are appropriate or necessary in order to replicate the Alternative Coupon Satisfaction Mechanism in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee, the Issuer and the Guarantor by such investment bank, the Trustee, the Issuer and the Guarantor shall without the consent of the Holders but subject to the consent of the new Ultimate Owner, effect any necessary consequential changes to the terms and conditions of the STICS, the Trust Deed and any other relevant documents. Any such amendments shall be subject to the requirements that:

(i) neither the Issuer nor the Guarantor shall be obliged to reduce its net assets;

(ii) no amendment may be proposed or made which would alter the treatment of the STICS as cover for the Regulatory Capital Requirement pursuant to the Capital Regulations without prior written notice being given to the FSA and having received consent from the FSA, or the period of one month following such notice having expired without any objection having been received from the FSA;

(iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent; and

(iv) such amendments shall preserve substantially the financial effect for the Holders of a holding in the STICS.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall notify the Issuer, the Guarantor, the previous Ultimate Owner (if not the Issuer or the Guarantor), the new Ultimate Owner, the Trustee, the Paying Agent and the Calculation Agent of that result. Reference to the giving of such a notice by such investment bank is defined as a "Definitive Suspension" of the Alternative Coupon Satisfaction Mechanism.

Upon the occurrence of a Definitive Suspension, the Issuer and the Guarantor may at their sole discretion, subject in each case to compliance with applicable regulatory requirements, including giving prior written notice to the FSA and having received consent from the FSA, or the period of one month following such notice having expired following such notice without any objection having been received from the FSA, at any time exchange the STICS in whole (but not in part) to another series of capital securities constituting undated cumulative subordinated notes, having in the opinion of an independent investment bank the same material terms as the STICS and which are no less favourable to an investor than the current terms of the STICS, and such undated cumulative subordinated notes will, without limitation:

(i) be a perpetual capital security issued by the Issuer (with a guarantee from the Guarantor given on the same terms as the Guarantee) or a perpetual security issued by the Guarantor in each such case with cumulative interest payments;

(ii) rank *pari passu* with any other undated cumulative subordinated notes issued by the Issuer or the Guarantor (as the case may be);

(iii) following conversion be redeemable upon any Tax Event or Regulatory Event, modified as necessary to be applicable to a class of undated cumulative subordinated notes;

(iv) not be subject to the Alternative Coupon Satisfaction Mechanism. Any Deferred Interest and accrued interest thereon outstanding at the time of conversion will be carried over and become outstanding deferred cumulative interest payments for the purposes of the undated cumulative subordinated notes; and

(v) be listed on a Recognised Stock Exchange.

If, following a Definitive Suspension, the FSA objects to the proposal by the Issuer to convert or exchange the STICS into another series of capital securities constituting undated cumulative subordinated notes, then, subject to giving written notice to the FSA, and having received consent from the FSA, or the period of one month following such notice having expired without any objection having been received from the FSA, the Issuer shall (subject to the Solvency Condition being met both at the time of and immediately after such redemption) have the option to redeem the STICS in whole (but not in part) at a redemption price equal to their principal amount, together with accrued and unpaid interest and all Deferred Interest, in cash without utilising the Alternative Coupon Satisfaction Mechanism.

(g) Purchases

The Issuer may, at any time and from time to time, purchase outstanding STICS by tender, available alike to all Holders in the open market, or by private agreement, in each case upon the terms and conditions that the Board of Directors of the Issuer or an authorised committee of the Board of Directors of the Issuer shall determine.

(h) Cancellations

All STICS which are purchased by or on behalf of the Issuer will forthwith be cancelled and accordingly may not be held, reissued or resold.

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 STICS 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 STICS. 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 STICS, any unexchanged Talons relating to such STICS (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talons and unmatured Coupons relating to such STICS (whether or not attached) shall also become void and no payment shall be made in respect of them. If any STICS 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 reasonably require.

(iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any STICS, 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 office 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 in London for so long as the STICS are admitted to the Official List of the UK Listing Authority and the rules of the UK Listing Authority so require and (bb) a Paying Agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 16.

(b) Payments subject to Fiscal Laws

Without prejudice to the terms of Condition 10, 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 Holders in respect of such payments.

(c) Payments on Payment Business Days

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

9. Defaults; Limitation of Remedies

Notwithstanding any of the provisions below in this Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(c), no principal or coupon payments will be due from the Issuer on the relevant payment date if the Solvency Condition relating to the Issuer is not satisfied at the time of and immediately after any such payment, and no payments will be due from the Guarantor under the Guarantee if the Solvency Condition relating to the Guarantor is not satisfied at the time of and immediately after any such payment.

(a) If a STICS Default occurs and is continuing, the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 9, institute proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer (if the STICS Default relates to the Issuer) and/or the Guarantor (if the STICS Default relates to the Guarantor), provided, *however, that the Trustee may only institute proceedings for the winding-up of the Issuer* and/or the Guarantor (as the case may be) on or after the date two years and one day after the failure of payment by the Issuer and/or the Guarantor (as the case may be) referred to in this paragraph.

(b) The Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed, the STICS or the Coupons (other than for a failure to pay which constitutes a STICS Default) if the Issuer and/or the Guarantor is in default of such term and fails to remedy such default within 14 days after notice of the same shall have been given to the Issuer and/or Guarantor (as the case may be) by the Trustee, provided that the Issuer and the Guarantor (as the case may be) 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 and/or the Guarantor (as the case may be) to enforce the terms of the Trust Deed, the STICS or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders or in writing by the Holders of at least one-quarter in principal amount of the STICS then outstanding and (ii) it shall have been indemnified to its satisfaction.

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

10. Additional Amounts

All payments by or on behalf of the Issuer or the Guarantor of principal and interest in respect of the STICS and Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, collected, withheld, assessed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction is required by law. In such event, the Issuer, or, as the case may be, the Guarantor, will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders or Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the STICS or Coupons, as the case may be, in the absence of the withholding or deduction ("Additional Amounts"), except that no such Additional Amounts shall be payable in relation to any STICS or Coupon:

(i) presented for payment by, or on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such STICS or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such STICS or Coupon; or

(ii) presented for payment by, or on behalf of, a Holder who would be able to avoid such withholding or deduction by satisfying any requirement to provide such evidence as is required by statute or making a declaration or any other statement or claim, including, but not limited to, a declaration of non residence, but fails to do so; or

(iii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or

(iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by, or on behalf of, a Holder who would have been able to avoid such withholding or deduction by presenting the relevant STICS or Coupon to another Paying Agent in a Member State of the European Union.

Whenever, in these Terms and Conditions, reference is made in any context to the payment of principal or interest on, or in respect of, any STICS, these terms shall be deemed to include the payment of any Additional Amounts to the extent that, in the context, Additional Amounts are, were or would be payable.

If the Issuer or the Guarantor becomes resident for tax purposes in any jurisdiction other than the United Kingdom, references in these Terms and Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

11. Amendments

Any amendment or variation to these Terms and Conditions will require the provision of at least 30 days' notice to, and receipt of no objection within that period from, the FSA.

12. Prescription

STICS 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 STICS 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 Holders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the modification by Extraordinary Resolution (as defined in the Trust Deed) of any of these Terms and Conditions or any of the 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 STICS for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Holders whatever the principal amount of the STICS so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and the Trust Deed (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and the due dates for payment of principal or coupon payments in respect of the STICS and reducing or cancelling the principal amount of any STICS) 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 STICS for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all 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 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 of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the 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.

Subject to (i) having received consent from the FSA, or the period of six months following the giving of prior written notice to the FSA having expired without any objection having been received from the FSA, and (ii) subject to Condition 21 hereof, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Holders or Couponholders, to the substitution on a subordinated basis on the same material terms which are no less favourable to the Holders than the current terms of the STICS:

(a) any holding company of the Issuer, any Subsidiary of such holding company, any Subsidiary of the Issuer, 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 the obligor under the Trust Deed, the STICS and the Coupons; or

(b) the Guarantor or any Successor (as defined in Condition 21) as the guarantor of the obligations under the Trust Deed or any holding company of the Guarantor (the "Substituted Guarantor").

The Trustee will determine what amendments (if any) to these Terms and Conditions, the Trust Deed and any other document are appropriate or necessary to replicate the Alternative Coupon Satisfaction Mechanism. 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 Holders as a class and the Trustee shall not have regard to the consequences of such substitution for individual 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 exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Issuer, the Substituted Guarantor, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of, or relating to, any such substitution or exercise (including, for the avoidance of doubt, any tax consequences arising from such substitution or exercise relating to subsequent payments made in respect of the STICS) upon any individual Holder or Couponholder except to the extent already provided in Condition 10 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 Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 16 as soon as practicable thereafter.

14. Replacement of the STICS, Coupons and Talons

Should any STICS, 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 STICS, Coupons or Talons must be surrendered before any replacement STICS, 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, the Guarantor or any subsidiary of the Issuer 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 addressed to the Trustee and whether or not they are subject to any limitation on the liability of the Auditors, whether by reference to a monetary cap or otherwise. No liability shall attach to the Trustee if, as a result of any 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 any of the provisions of these Terms and Conditions.

16. Notices

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, 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 Holders in accordance with this Condition.

17. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders or the Couponholders, to create and issue further capital securities 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 capital securities) and so that the same shall be consolidated and form a single series with the outstanding STICS. Any such STICS shall be constituted by a deed supplemental to the Trust Deed.

18. Agents

The Issuer and the Guarantor will procure that there shall at all times be a Calculation Agent and a Principal Paying Agent so long as any of the STICS 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 and the Guarantor shall appoint, on terms acceptable to the Trustee, an independent investment bank or stockbroker in the case of the Calculation Agent or a leading international bank in the case of the Principal Paying Agent, in each case 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 STICS shall (save in the case of manifest error) be final and binding on the Issuer, the Guarantor, the Trustee, the Paying Agents, the Holders and the Couponholders.

None of the Issuer, the Guarantor, 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 STICS, 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 STICS by virtue of the Contracts (Rights of Third Parties) Act 1999.

21. Transfer of Business

The Guarantor may transfer the whole or a substantial part of its business (including its obligations under the Guarantee) without any prior approval from the Trustee, the Holders or the Couponholders in the following circumstances:

(a) The Guarantor may transfer all or a substantial part of its long-term business to another body in accordance with Part VII of the FSMA (a "Successor"). If the Guarantor transfers all or a substantial part of its long-term business to a Successor in accordance herewith, the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

(b) The Guarantor may transfer the whole or a substantial part of its long-term business to a single legal entity where such transfer is pursuant to the exercise by the FSA or the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation. If the Guarantor is required to make such a transfer, the Guarantor shall procure that there be included in the transfer all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

In this Condition, "substantial part" means any part which, as at the most recent valuation date, represents 50% or more of liabilities (mathematical reserves) relating to policies entitled to share in the surplus of the Guarantor.

22. Definitions

In these Terms and Conditions:

"Additional Amounts" has the meaning set forth in Condition 10.

"Agency Agreement" means the agency agreement dated 20 November, 2003 between the Issuer, the Guarantor, the Trustee and the Paying Agents, relating to the STICS under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions.

"Alternative Coupon Satisfaction Mechanism" means the mechanism described in Condition 6.

"Benchmark Gilt" means,

(i) in relation to any determination of the Make-Whole Redemption Amount, such United Kingdom government security having a maturity date on or about the next Reset Date as the Principal Paying Agent, with the advice of the Reference Market Makers, may determine to be appropriate; and

(ii) in relation to any determination of the Reset Coupon Rate for each Coupon Calculation Period, the five year benchmark gilt, or if any such security is no longer in issue, such other United Kingdom government security as the Principal Paying Agent may, with the advice of the Reference Market Makers, determine to be appropriate at the relevant time.

"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 20 November, 2003 between the Issuer, the Guarantor, the Trustee and the Calculation Agent relating to the STICS under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions.

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

"Capital Regulations" means the rules and regulations of the FSA or any successor regulatory body that require a Regulatory Capital Requirement to be met for the Guarantor and for the Issuer as the parent company in an insurance group including, without limitation, pursuant to Directives 98/78/EC, 2002/83/EC and 2002/87/EC of the European Union (the "Directives") or any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area (which includes the European Union together with Norway, Liechtenstein and Iceland) implementing the Directives.

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

"Coupon Amount" means the amount of interest payable on the presentation and surrender of each Coupon for the relevant Coupon Period.

"Coupon Calculation Period" means each period commencing on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date for so long as any STICS are outstanding (as defined in the Trust Deed).

"Couponholder" means the bearer of any Coupon.

"Coupon Payment" means with respect to a Coupon Payment Date the aggregate Coupon Amounts for the Coupon Interest Period ending on such Coupon Payment Date.

"Coupon Payment Date" means the date on which Coupon Payments on the STICS will be payable.

"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.

"Deferred Interest" has the meaning given to it in Condition 4(c).

"Definitive Suspension" has the meaning given in Condition 7(f).

"Determination Date" in relation to a Coupon Calculation Period after 21 November 2019 means the fifth Business Day prior to the first day of such Coupon Calculation Period, provided that if it is not possible for any reason to determine the Gross Redemption Yield on such day, the Determination Date shall be postponed to the first Business Day thereafter on which the Principal Paying Agent determines that it is possible to determine the Gross Redemption Yield, provided that such day occurs before the first day of such Coupon Calculation Period. If such day falls on or after the first day of such Coupon Calculation Period, that Determination Date shall instead be the Business Day which is, or is nearest to but after, the first day of such Coupon Calculation Period and upon which the Principal Paying Agent determines that it is possible to determine the Gross Redemption Yield.

"Eligible Company" means a company incorporated in a country which is a member of the Organisation for Economic Co-operation and Development whose ordinary shares are listed (i) on the official list of the FSA in its capacity as competent authority under the FSMA and are admitted to trading on the market for listed securities of the London Stock Exchange or (ii) on such other internationally recognised stock exchange as the Trustee may approve.

"FSA" means the Financial Services Authority or any successor regulatory body or other governmental authority in the U.K.

"FSMA" means the Financial Services and Markets Act 2000.

"Gross Redemption Yield" means, with respect to a security, the gross redemption yield on such security, as calculated by the Principal Paying Agent on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields", page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi Coupon Date" (published June 8, 1998, as amended or updated from time to time) on a semi annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places).

"Group" means the Issuer, the Guarantor and their respective Subsidiaries.

"Holder" means the bearer of any STICS.

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

"Issue Date" means 21 November 2003 being the date of initial issue of the STICS.

"Issuer Payment Option" means the option of the Issuer which may be exercised, in its sole discretion, to defer payment of any Coupon on a Coupon Payment Date.

"Junior Securities" means ordinary shares or any other securities which rank, as regards distributions on a return of assets on a winding-up or in respect of distributions or payments of dividends or any other payments thereon, after the STICS or, as applicable, the Guarantee.

"London Stock Exchange" means London Stock Exchange plc.

"Make Whole Redemption Amount" with respect to each STICS (which is intended solely to compensate Holders for any reinvestment loss from interest rate risk, and costs of reinvestment as a result of the early redemption of the STICS), will be equal to the sum of:

(a) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of the liquidation amount per STICS, at which the Gross Redemption Yield on the STICS on the Reference Date (assuming for this purpose that the liquidation amount of the STICS was payable on 21 November 2019 or, if the Redemption Date falls on any subsequent date other than on a Reset Date, the next Reset Date falling after such Redemption Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 3:00 p.m.(London time) on the Reference Date of the Benchmark Gilt plus 2.97%;

(b) if the Redemption Date is on or within five business days following a Coupon Payment Date, the Coupon payable thereon on that Coupon Payment Date, to the extent unpaid; and

(c) any Additional Amounts.

"Make Whole Redemption Price" means the greater of the Make Whole Redemption Amount and the par redemption price.

"Market Disruption Event" means (i) the occurrence or existence of any material suspension of, or limitation imposed on trading or on settlement procedures for, transactions in Ordinary Shares through the London Stock Exchange (or other national securities exchange or designated offshore securities market constituting the principal trading market for its Ordinary Shares); or (ii) in the reasonable opinion of the Issuer there has been a substantial deterioration in the price and/or value of Ordinary Shares, or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Ordinary Shares to be issued in accordance with the Alternative Coupon Satisfaction Mechanism; or (iii) where monies are required to be converted from one currency upon issue of Ordinary Shares into another currency for payment of Deferred Interest, 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 for the Group following a Permitted Restructuring.

"Ordinary Shares" means ordinary shares of the Issuer having at the date hereof a par value of 10 pence each.

"par redemption price", with respect to each STICS, means an amount equal to the sum of its denomination of £1,000, £10,000, £100,000 plus the accrued and unpaid coupon thereon for the then current Coupon Period (including Deferred Interest) and, if the Redemption Date is on or within five Business Days following a Coupon Payment Date, the coupon payable thereon with respect to that Coupon Payment Date, to the extent unpaid, and any Additional Amounts.

"Parity Securities" means preference shares or other securities issued ranking *pari passu* with the STICS, or (as applicable) the Guarantee in respect of the STICS, as to rights to coupons or dividend payments and participation in the assets of the Issuer in the event of liquidation.

"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.

"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 to all) of the shareholders of the Issuer (or, if the Issuer is not then the Ultimate Owner, to the shareholders of the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable to the whole) of the issued ordinary share capital, of the Issuer (or, if the Issuer is not then the Ultimate Owner, the then Ultimate Owner's issued ordinary share capital) other than those ordinary shares 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 the Ultimate Owner, the then Ultimate Owner's issued share capital) not held by the New Holding Company.

"Permitted Restructuring Arrangement" means an arrangement whereby the following conditions are satisfied: (i) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure, to the satisfaction of the Trustee, that the Alternative Coupon Satisfaction Mechanism, the Trust Deed and certain other agreements operate so that the Ordinary Shares may be exchanged for Holding Company Shares in such a manner that ensures that upon issue or sale of such Holding Company Shares the Holder of each STICS then outstanding will receive, in the event of a payment to be satisfied pursuant to the Alternative Coupon Satisfaction Mechanism, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place; and (ii) the Trustee is satisfied that the credit ratings that would be assigned to the STICS by Standard & Poor's Rating Services, 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 STICS immediately prior to such Permitted Restructuring taking place.

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

"Public Market Junior Securities" means Junior Securities held by persons other than a member of the Group.

"Public Market Parity Securities" means Parity Securities held by persons other than a member of the Group.

"Recognised Stock Exchange" means a recognised stock exchange as defined in Section 841 of the Income and Corporation Taxes Act 1988, as the same may be amended from time to time and any provisions, statute or statutory instrument replacing the same from time to time.

"Redemption Date" means any date fixed for redemption pursuant to Condition 7.

"Reference Date" means the third Business Day prior to the Redemption Date.

"Reference Market Makers" means three brokers of gilts and/or gilt edged market makers selected by the Calculation Agent in consultation with the Issuer and the Guarantor.

"Regulatory Capital Requirement" means the applicable regulatory capital or capital ratios required to be maintained for insurance companies and parent companies in insurance groups generally by the FSA or any successor regulatory body.

A "Regulatory Event" is deemed to have occurred if either (i) the STICS would not be capable of counting as cover for the minimum or notional margin of solvency or minimum capital or capital ratios required of the Issuer or (ii) the Subscribed Securities (as defined in Condition 3(c)) would not be capable of counting as cover for the minimum or notional margin of solvency or minimum capital or capital ratios required of the Guarantor (as a result of the Guarantee or other provisions of the STICS) by any Regulatory Capital Requirement as a result of any change to the Capital Regulations or the application or official interpretation thereof at any relevant time.

"Relevant Date" in respect of a payment means the date on which such payment first becomes due, except that if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 16.

"Reset Date" means 21 November 2019 and each Coupon Payment Date falling on or nearest to the fifth anniversary of the preceding Reset Date.

"Resumption Date" has the meaning given to it in Condition 4(c).

"Senior Creditors" means:

(i) in respect of the Issuer

(a) any creditors who are unsubordinated creditors with claims admitted in the event of winding-up of the Issuer;

(b) any creditors having claims in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding-up or otherwise, to the claims of unsubordinated creditors of the Issuer, but not further or otherwise;

(c) any creditor who is a holder of capital securities other than the STICS except those that rank, or are expressed to rank, *pari passu* with or junior to the STICS; and

(d) all other creditors having claims, including other such creditors holding subordinated debt securities, except those that rank, or are expressed to rank, equally with (including holders of Parity Securities of the Issuer) or junior to (including holders of Junior Securities of the Issuer) the claims of any Holder.

(ii) in respect of the Guarantor:

(a) any policyholders (and, for the avoidance of doubt, the claims of Senior Creditors who are policyholders referred to in Condition 2(b)(iv) shall include all amounts to which they would be entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have);

(b) any other creditors who are unsubordinated creditors with claims admitted in the event of the winding-up of the Guarantor;

(c) any creditors having claims in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding-up or otherwise, to the claims of unsubordinated creditors of the Guarantor, but not further or otherwise;

(d) any creditor who is a holder of capital securities other than the STICS except those that rank, or are expressed to rank, *pari passu* with or junior to the STICS; and

(e) all other creditors having claims, including other such creditors holding subordinated debt securities, except those that rank, or are expressed to rank, equally with (including holders of Parity Securities) or junior to (including holders of Junior Securities) the claims of any Holder.

For the avoidance of doubt, Senior Creditors includes holders of the 9.125% perpetual subordinated debt issued on 25 November, 1996 by FP Finance PLC and guaranteed by the Guarantor

"Solvency Condition" has the meaning set forth in Condition 2(c).

A "STICS Default" with respect to the STICS shall occur if the Issuer or the Guarantor (i) on a Redemption Date fails to pay the principal amount of the STICS, or (other than as a result of a Market Disruption Event) any Deferred Interest or any accrued but unpaid interest or (ii) on a Resumption Date that is a Coupon Payment Date (other than as a result of a Market Disruption Event) fails to pay any Deferred Interest or any accrued but unpaid interest, and in any such case, such failure continues for 14 days.

"Subsidiary" means a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

"Talon" means a talon for future coupons.

"Tax Event" means an event where the Issuer and/or the Guarantor determines that (i) in making any interest payments or Deferred Interest payments on the STICS or under the Guarantee (as the case may be), it has paid, or will or would on the next Coupon Payment Date be required to pay, otherwise than as a result of a Change of Law (as defined in (iv) below), Additional Amounts in accordance with Condition 10 and such requirement or circumstance cannot be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it; (ii) as a result of a Change of Law (as defined in (iv) below) any of the events mentioned in (i) above shall occur and such requirement or circumstance can not be avoided by the Issuer or the Guarantor (as the case may be) taking reasonable measures available to it; (iii) payments, including payment of Deferred Interest on the next Interest Payment Date in respect of any STICS would, otherwise than as a result of a Change of Law (as defined in (iv) below), be treated as "distributions" within the meaning of Section 209 of the Income and Corporation Taxes Act 1988 of the United Kingdom (as amended, re-enacted or replaced), or would be treated in such a way under any other provision of that Act or any Finance Act (as amended, re-enacted or replaced) that the Issuer would not obtain full or substantially full relief in respect of those payments for the purposes of United Kingdom corporation tax or (iv) as a result of a Change in Law, which for the purposes of the definition of Tax Event means a change in, or amendment to, or the official announcement of a change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the United Kingdom is a party), or any change in the application of or official interpretation of those laws or regulations (or the official announcement of any such change), which change or amendment becomes, or would become, effective on or after the Issue Date, there is a substantial risk that the Issuer will not obtain full or substantially full relief for the purposes of United Kingdom corporation tax for any 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 where 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 reasonable measures available to it.

"Trust Deed" means the trust deed dated 21 November 2003 between the Issuer, the Guarantor and the Trustee.

"Trustee" means The Law Debenture Trust Corporation p.l.c.

"Ultimate Owner" means, at any given time, the ultimate holding company of the Group.

PART 4: SUMMARY OF PROVISIONS RELATING TO THE STICS WHILE IN GLOBAL FORM

Exchange

The STICS will be represented initially by a Temporary Global STICS in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about 21 November 2003. The Temporary Global STICS will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global STICS in bearer form without Coupons or Talons on or after a date which is expected to be 2 January 2004 (the "Exchange Date") upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global STICS. Upon deposit of the Temporary Global STICS or the Permanent Global STICS (each a "Global STICS") with a common depositary for Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of STICS 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 a STICS represented by a Global STICS 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 STICS, subject to and in accordance with the respective rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

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

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

The holder of the Temporary Global STICS shall not (unless, upon due presentation of the Temporary Global STICS for exchange (in whole or in part) for interests in the Permanent Global STICS, 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 STICS represented by the Temporary Global STICS which falls due on or after the Exchange Date.

Interests in the Permanent Global STICS will be exchangeable, in whole but not in part (free of charge to the holder), for definitive bearer STICS (a) if the Permanent Global STICS 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 and no alternative clearing system satisfactory to the Trustee is available, by such holder giving notice to the Principal Paying Agent and the Trustee or (b) at any time at the option of the Issuer, by the Issuer giving notice to the Principal Paying Agent and the Trustee and the Holders of its intention to exchange the Permanent Global STICS for definitive STICS 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 STICS shall surrender the Permanent Global STICS to, or to the order of, the Principal Paying Agent. In exchange for the Permanent Global STICS, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive STICS having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global STICS 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 STICS shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it, or to the order of the Principal Paying Agent, which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global STICS. No person shall, however, be entitled to receive any payment on the Permanent Global STICS falling due after the Permanent Global Exchange Date unless exchange of the Permanent Global STICS for definitive STICS is improperly withheld or refused by or on behalf of the Issuer.

Notices

So long as the Permanent Global STICS is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices required to be given to 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 STICS, except that, so long as the STICS are admitted to listing on the Official List of the UK Listing Authority and the rules of the UK Listing Authority so require, notices shall also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). 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 Holders on the day on which such notice is delivered.

Purchase and cancellation

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

PART 5: USE OF PROCEEDS

The net proceeds of the issue of the STICS are estimated to amount to £296,856,000 and will be used by the Issuer to subscribe for non-cumulative preference shares of the Guarantor. The net proceeds of this subscription, will in turn, be used for general corporate purposes and to strengthen the capital base of the Guarantor and its subsidiaries.

PART 6: THE ISSUER

All financial information contained in this section in relation to the six month period ending 30 June 2003 has been extracted without material adjustment from unaudited consolidated financial information of the Issuer and its subsidiaries (the "Group"). The information relating to new business and funds under management has been extracted without material adjustment from announcements made by the Issuer and ISIS Asset Management plc ("ISIS") on 28 October 2003.

Overview

The Issuer is the holding company for one of the top 10 life insurance groups in the UK, with a share of approximately 3.3 per cent. of the life and pensions domestic market in 2002. The Group operates primarily in the UK and is structured into two core businesses: Life and Pensions and Asset Management. The Life and Pensions business has a long-established presence in its sector, operating through its main subsidiary, Friends Provident Life and Pensions Limited ("FPLP"), the Guarantor. The Asset Management business is conducted by ISIS, a publicly listed company, and its subsidiaries, in which the Group has a 67 per cent. shareholding.

The table below shows the contribution to operating profit from the Group's major operations on an achieved profit basis.

Summary Consolidated Profit and Loss Account on an Achieved Profit Basis

	Half year ended 30 June 2003	Half year ended 30 June 2002	Year ended 31 December 2002
	£m	£m	£m
Operating Profit			
Life and Pensions achieved operating profit	127	127	247
Asset Management	12	13	23
Expected return on net pension asset	3	12	23
Expected return on corporate net assets	(2)	14	22
Corporate Costs	(5)	(5)	(10)
Operating profit before amortisation of goodwill, operating exceptional items and tax	135	161	305

Corporate History

Friends' Provident Life Office ("FPLO") was established as a friendly society in 1832 and was subsequently incorporated and regulated as a mutual life assurance company. In 1998, it merged its asset management business with Ivory & Sime plc to create Friends Ivory & Sime plc as a separately listed asset management subsidiary. In the same year, it acquired London and Manchester Group plc. In 2001, FPLO demutualised and the whole of the life assurance business of FPLO was transferred to FPLP, a newly incorporated life assurance company. The Issuer, as the new holding company for the Group, was listed on the London Stock Exchange on 9 July 2001. As part of the listing, the Group raised £1.6 billion of new capital, £1.2 billion of which was used to increase the financial strength of FPLP and its subsidiary, Friends Provident Pensions Limited, through which the new pension business for the Group is written. Shortly after listing, the Issuer joined the FTSE 100 Index of leading companies in the UK.

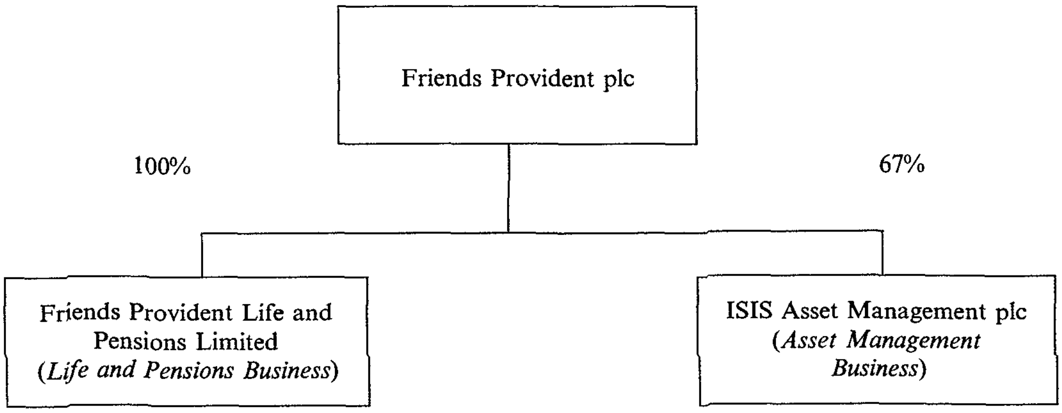
With effect from 1 July 2002, Friends Ivory & Sime plc acquired the asset management business ("RSA Investments") of Royal & SunAlliance Group plc ("RSA") and as a result doubled its funds under management as at that date to £66 billion. Friends Ivory & Sime plc changed its name to ISIS Asset Management plc with effect from 27 September 2002.

With effect from 1 August 2002, the Group acquired the Isle of Man based offshore life business of RSA as part of its objective to grow in international markets.

In addition to the Group's existing top 10 position in the UK life and pensions market, these acquisitions have given the Group a top 10 position in UK active investment management and a leading position in the offshore life market.

Summary Organisational Structure

The following chart shows, in simplified form, the organisational structure of the Group:



Group Strategy

The Group's aim is to build on its position as one of the leading life and pensions and asset management groups in the UK. This will be achieved through:

- building its presence in the life and pensions market by growing its share of this sector in a focused and profitable manner, particularly;
  - building on its established position in the group defined contributions pensions business;
  - applying technology and e-commerce to enhance distribution, improve service and reduce costs;
  - enhancing its multi-channel distribution network;
- strengthening further the Group's investment capability and developing ISIS into a leading asset management business; and
- growing organically (i.e. using its own resources) and pursuing acquisition opportunities where they will enhance shareholder value and are consistent with the Group's strategy.

The Business of the Group

The Life and Pensions Business

The Life and Pensions business operates primarily in the UK and selected international markets, mainly targeting the protection, pensions and discretionary savings markets. Its new business annualised premium equivalent ("APE") in 2002 was £377 million and its UK domestic market share was approximately 3.3 per cent. APE represents regular premiums plus 10 per cent. of single premiums. The Life and Pensions business distributes a comprehensive range of pension, protection, annuity and savings products to both corporate and individual clients.

Over the last five years to 31 December 2002, the Group has delivered a compound annual growth rate in APE of 16 per cent., which has been achieved by a mixture of organic growth and acquisition. The UK domestic market share of the life and pensions business (direct premiums) had grown to 3.8 per cent. at 30 June 2003.

Life and Pensions New Business

The table below shows Life and Pensions gross new business premiums, including APE, by class of business for the years ended 31 December 2002 and 2001:

	Year ended 31 December 2002			Year ended 31 December 2001			
	Regular Premiums	Single Premiums	APE	Regular Premiums	Single Premiums	APE	Change in APE
	£m	£m	£m	£m	£m	£m	%
Life							
Protection	45.1	—	45.1	34.4	1.2	34.5	30.7
Savings and Investment	25.3	717.1	97.0	23.2	453.0	68.5	41.6
	70.4	717.1	142.1	57.6	454.2	103.0	38.0
Pensions							
Individual Pensions ..	18.0	280.9	46.1	24.0	298.5	53.9	(14.5)
Group Pensions	136.4	213.9	157.8	124.5	162.1	140.7	12.2
Annuities	—	307.4	30.7	—	455.1	45.5	(32.5)
	154.4	802.2	234.6	148.5	915.7	240.1	(2.3)
Total Life and Pensions	224.8	1,519.3	376.7	206.1	1,369.9	343.1	9.8

On 28 October 2003, the Life and Pensions business reported new business for the first nine months of 2003. On an APE basis, new Life and Pensions business for this period increased by 14.2 per cent. to £312.5 million (£273.6 million in the first nine months of 2002). The table below shows an analysis by class of business for the first nine months of 2003, compared to the equivalent nine month period in 2002.

	9 months ended 30 September 2003			9 months ended 30 September 2002			
	Regular Premiums	Single Premiums	APE	Regular Premiums	Single Premiums	APE	Change in APE
	£m	£m	£m	£m	£m	£m	%
Life							
Protection	48.0	—	48.0	32.0	—	32.0	50.0
Savings and Investment	30.7	514.4	82.2	14.9	512.0	66.1	24.4
	78.7	514.4	130.2	46.9	512.0	98.1	32.7
Pensions							
Individual Pensions ..	10.3	180.0	28.3	14.1	218.4	35.9	(21.2)
Group Pensions	97.9	318.1	129.7	102.5	147.0	117.2	10.7
Annuities	—	242.6	24.3	—	223.9	22.4	8.5
	108.2	740.7	182.3	116.6	589.3	175.5	3.9
Total Life and Pensions	186.9	1,255.1	312.5	163.5	1,101.3	273.6	14.2

Life Business

Total new life business APE in 2002 increased by 38.0 per cent. to £142.1 million (£103.0m in 2001). Total new life business APE in the first nine months of 2003 increased by 32.7 per cent. to £130.2 million (£98.1m in the first nine months of 2002).

New savings and investment business APE in 2002 increased 41.6 per cent. to £97.0 million (£68.5m in 2001), with new single premiums increasing 58.3 per cent. to £717.1 million (£453.0m in 2001). Total offshore business accounted for 14 per cent. of total new business in 2002, compared to 10 per cent. in 2001 and stands at 16 per cent. for the first nine months of 2003 as a result of the acquisition of the RSA offshore business in August 2002. New savings and investment business APE in the first nine months of 2003 increased by 24.4 per cent. to £82.2 million (£66.1m in the first nine months of 2002). Performance has been bolstered by the enlarged offshore operations, although offset in part by the anticipated decline in with profits business. Reflecting the continued uncertainty in the equity markets, the emphasis of promotional activity has been towards the low to medium risk asset classes. Online sales of single premium products by UK Independent Financial Advisers ("IFAs") continue to increase and are reducing processing timescales significantly. In the third quarter of 2003, 70 per cent. of savings and investment sales were transacted online compared with 30 per cent. in the third quarter of 2002.

New protection business APE in 2002, including income protection, increased 30.7 per cent. to £45.1 million (£34.5m in 2001). New protection business APE, including income protection, increased by 50.0 per cent. in the first nine months of 2003 to £48.0 million (£32.0m in the first nine months of 2002) and included nine months contribution of mortgage related protection business from the distribution agreement with Countrywide, signed in August 2002. Sales are accelerating despite the tough trading conditions that persist, with the service offered being an increasingly important and positive factor.

Use of the Group's electronic trading systems by intermediaries to process new protection business grew during 2002 and the first nine months of 2003. Online sales from UK IFAs continue to grow encouragingly; in the third quarter of 2003, 32 per cent. of new stand-alone protection products were transacted online, compared with less than 15 per cent. in the third quarter of 2002. Following successful trials, the launch in August 2003 of new e-select products has further expanded capacity for handling increasing volumes of new business without compromising service.

Pensions Business

Total new pensions business APE in 2002 decreased 2.3 per cent. to £234.6 million (£240.1m in 2001), reflecting the exceptional group pensions business in the last three months of 2001 and the ongoing strategic decision to focus on the selective marketing of individual pensions and annuities for profitability reasons. Total new pensions business APE increased slightly in the first nine months of 2003 by 3.9 per cent. to £182.3 million (£175.5m the first nine months of 2002).

New group pensions business APE, increased in 2002 by 12.2 per cent. to £157.8 million (£140.7m in 2001), and in the first nine months of 2003 by 10.7 per cent. to £129.7 million (£117.2m in the first nine months of 2002). As at 30 September 2003, there are now some 8,040 group defined contribution pension schemes operating on straight through processing systems and worksite marketing teams are making an increasing contribution to populating the major schemes.

Good representation on the panels of the top quality 'commission based' IFAs has now been achieved. Additionally, the recent launch of a multi-manager investment fund facility has been positively received.

New individual pensions APE in 2002 decreased 14.5 per cent. to £46.1 million (£53.9m in 2001), and in the first nine months of 2003 decreased by 21.2 per cent. to £28.3 million (£35.9m in the first nine months of 2002) continuing to reflect the strategic focus on the more profitable group pensions market.

The 32.5 per cent. decrease in new annuities from £45.5 million in 2001 to £30.7 million in 2002 results from the previously announced strategy to focus on margins rather than volumes. New annuity business in the first nine months of 2003 increased by 8.5 per cent. to £24.3 million (£22.4m in the first nine months of 2002) as a result of winning selected business during the period whilst maintaining healthy margins.

Products

The Life and Pensions business offers a wide range of life and pension products. The protection products offered include term assurance, income protection and flexible whole-life plans, providing protection in the event of death, critical illness and disability. A significant proportion of the new protection business is sold through the Select Protection product. This is a regular premium umbrella-type plan designed to incorporate all aspects of protection business.

The savings and investment range of products includes the following single premium products: the Investment Portfolio Bond, Income Distribution Bond and Flexible Income and Growth Bond. A range of regular premium savings products is offered, giving access to various unit linked funds and unitised with profits funds. FPLP's Versatile Investment Plan is structured as a qualifying life product offering some life insurance whilst the Flexible Investment Plan and the Flexible Savings Plan are more flexible non-qualifying plans.

In the pensions market, leading pensions systems have been developed for FPLP's Stakeholder and New Generation pension plans. The Stakeholder plan was designed to meet government legislation on stakeholder pensions. The New Generation contract is very similar but is less restricted by regulation. The focus of these products is to use technology to enhance services and reduce administration costs so as to compete effectively in the one per cent. per annum charging environment. The Life and Pensions business also writes pension annuities for its own maturing pension monies and those moving from other life insurance companies. An alternative is offered in the form of a self-invested personal pension.

Offshore Life Assurance Business

With effect from 1 August 2002, FPLP acquired Royal & SunAlliance International Financial Services Limited (now known as Friends Provident International Limited ("FPIL")), the Isle of Man based offshore life insurance operations of RSA, for a consideration of £126 million, to complement its existing Guernsey based offshore operations. As part of the transaction, FPLP also acquired RSA's Luxembourg based SICAV management company. At 30 June 2003, FPIL had approximately 46,000 in-force policies with policyholders' assets totalling in excess of £2 billion. The acquisition created one of the largest offshore life operations with an estimated market share at 30 June 2003 of 10 per cent.

The offshore business offers a range of products including periodic premium savings, single premium investment and overseas life assurance protection (including term assurance and critical illness protection). It offers multi-currency contracts and access to third party fund management groups.

Distribution Channels

FPLP's products and services are distributed through five channels.

- The largest distribution channel of the Life and Pensions business is IFAs. This channel is serviced by approximately 125 sales consultants operating out of 11 area offices around the UK, a telesales unit with around 45 sales consultants selling to IFAs producing lower volumes and e-based product sales through various dedicated portals. A separate sales team focuses on the networks and national IFAs, aimed at ensuring that the Group's products are on their panels. The Group has also been investing in leading IFAs and supporting this channel through close co-operation and the provision of market-leading technology.
- The Direct Business Operations ("DBO") channel has three key elements: (i) Direct Sales Force (employing approximately 380 advisers operating from six regional offices throughout the UK), (ii) Pensions Solutions Direct (a separate sales team of about 14 sales and 7 worksite marketing staff which focuses on selling stakeholder and stakeholder style pensions

directly to small and medium-sized companies) and (iii) Appointed Representatives (approximately 290 tied agents with around 1,240 authorised sales consultants operating across the UK). On 1 October 2003, the Group announced a review of its UK distribution structure that is likely to result in the closure of its Direct Sales Force. The review is driven by proposed changes to the way financial services products are distributed. The alignment of the Life and Pensions sales strategy to the future market place is expected to achieve greater cost and operational efficiency and to continue its successful business momentum. Around half of the Direct Sales Force advisers will be offered the opportunity to switch to self-employed Appointment Representative status. This will improve the flexibility as some fixed costs become variable. It should also result in some overall cost savings and improved profitability. The review, which includes the sales support functions, is expected to be concluded on 19 November 2003, at which time a further announcement will be made.

- The International Business Operations channel markets a wide range of products through IFAs to UK expatriates and overseas customers. The division is supported by 28 consultants who provide product and technical information in the field and help IFAs to write business.
- Telesales and Direct Marketing activities are provided by approximately 46 employees. Direct Marketing is used to promote products to existing customers and to prospective new customers in affinity groups. Direct Marketing also supports the other direct UK sales channels by the provision of introductions to sales people.
- The e-business function is split into two separate teams. A business to customer relationship team develops FPLP's on-line interaction direct with the customer. This is facilitated by the Friends Provident Milestones website which allows existing and new customers to purchase products completely on-line. Current products which can be bought on-line include stakeholder pensions, with profit bonds and term assurance. It also offers numerous other products and tools to help with financial planning and decision making. In the future, focus will be given to building the servicing functionality for customers to service their own policies on-line. The business to business team develops the Friends Provident on-line proposition for the IFA community, managing and developing a range of websites, including FPLP's IFA website and extranets. The websites allow IFAs to access customer policy details on-line, allowing them to view and service their customer details at the touch of a button. It further provides IFAs with the opportunity to transact business on-line (with five products currently being offered) and provides up to date information on product and industry news.

Financial Position of Life and Pensions Business

Information about FPLP's financial position is contained in the Issuer's annual report and accounts, interim accounts and the documents filed each year with the FSA by FPLP and other subsidiary insurance companies. The FSA is required to monitor the financial position of all UK life assurance companies and requires each to hold sufficient assets to cover its contractual liabilities and an additional solvency margin.

There is no one objective measurement of the financial strength of life insurance companies. In common with insurance industry norms, the Free Asset Ratio ("FAR") is used as a measure for long term insurance business. The insurance industry norm is to define the FAR as the ratio of assets less liabilities (including actuarial reserves but before the required minimum solvency margin) expressed as a percentage of actuarial reserves. The FAR for FPLP at 30 June 2003 was 8.4 per cent., unchanged from 31 December 2002. Solvency cover at 30 June 2003 was 2.2 times. The solvency calculation at 30 June 2003 includes an implicit item of £600 million (31 December 2002: £600 million) and a stop loss reinsurance agreement to the value of £490 million (31 December 2002: £530 million) with third party re-insurers, which has the effect of reducing FPLP's statutory liabilities by this same amount. FPLP's solvency calculation excludes the value of an inadmissible item held by the With Profits Fund of FPLP, comprising 40 per cent. of the future profits from certain business in force at the date of demutualisation of Friends' Provident Life Office, which was valued at £313 million at 30 June 2003.

On 11 March 2003, as part of its transition to a realistic reporting approach for with profits life insurance business, the FSA invited insurance companies to apply for permission to modify the FSA's rules and guidance. FPLP received permission for five modifications, but it has taken no benefit for these modifications to date.

The nature of the products offered by FPLP and other UK life insurance companies means that FPLP holds a significant proportion of its investments in the form of equities, and that equity market volatility impacts FPLP's FAR. This arises because admissible assets are valued at market value, and are therefore subject to some volatility, whereas the total liabilities are calculated on prudent actuarial assumptions and as such are not subject to such wide fluctuations. During periods of equity market volatility or limited growth in the value of equity investments, FPLP has the flexibility to manage its capital position by a variety of means, including moderating the level of bonuses, changing investment strategy from equities to bonds and using derivative products, securitisation and reinsurance. In addition, the use of waivers and modifications to the rules and guidance of the FSA reduces the volatility of the FAR. The solvency position of FPLP is assessed and managed on an ongoing basis in order to comply with the requirements of the FSA.

Assets of the With Profits Fund of FPLP to cover policyholder liabilities are invested in equities, fixed income, property and other securities. As at 30 June 2003, the investment breakdown of the With Profits Fund was fixed income securities and cash 56 per cent., equities 32 per cent. and property 12 per cent.

The ratings agencies, Standard & Poor's and Moody's, measure the financial strength of life insurance companies by using an in-depth analysis, considering such items as business strategy, financial flexibility and profitability, as well as capital adequacy. As at the date of this Offering Circular, financial strength ratings for FPLP are, from Standard & Poor's, A+ (stable outlook), and, from Moody's, A2 (stable outlook).

Contingencies and Related Obligations

Consistent with FRS 12, "Provisions, contingent liabilities and contingent assets", appropriate provision has been made in the financial statements where FPLP has an obligation arising from the events or activities described below, but not for contingent liabilities. Note 30 of the Annual Report & Accounts of FPLP, in Part 9 of this Offering Circular, contains information on relevant contingencies.

Pension Mis-selling and Free-Standing Additional Voluntary Contribution Review

The FSA has required that all UK life insurance companies review their potential cases of mis-selling and pay compensation to policyholders where necessary. As detailed in note 29 to the Annual Report & Accounts of FPLP, in Part 9 of this Offering Circular, these reviews have now been substantially completed. £45 million was retained by FPLP within the long-term business provision in respect of residual costs and contingencies as at 30 June 2003.

Mortgage Endowment Complaints

As detailed in note 30 to the Annual Report & Accounts of FPLP, in Part 9 of this Offering Circular, market falls during 2002 have led to a considerable increase in the number of complaints received by the industry in respect of endowment policies. All such complaints received by FPLP, and an estimate of complaints not yet received, have been provided for within the With Profits Fund of FPLP, at an estimate of the likely cost of settling such complaints. Note 22 to the Annual Report & Accounts of FPLP, contained in Part 9 to this Offering Circular, details Provisions for Risk and Other Charges of £31 million in this respect at 31 December 2002, which had increased to £40 million at 30 June 2003. Future regulatory actions or statements could increase the estimated costs. The impact of such potential future actions cannot be estimated with reliability.

Provisions for liabilities in connection with policyholder contracts are based on best estimate assumptions, using historical experience but adjusted where there is reasonable cause to expect future experience to be different. However, actual experience may differ from that assumed. Regulatory action, legal judgments, future economic conditions or other unforeseen events may impact ultimate settlements made.

ASSET MANAGEMENT BUSINESS

The Asset Management business is undertaken through ISIS and its subsidiaries, in which the Group has a 67 per cent. interest. As at 30 September 2003, ISIS had approximately £62 billion of funds under management. ISIS provides a wide range of investment services for institutional, corporate and retail clients.

On 1 July 2002, ISIS acquired RSA Investments for a consideration of £240 million. As part of the acquisition, RSA have agreed terms under which ISIS will manage the UK shareholder and life and general insurance funds of RSA under ten year management agreements. These funds, together with other third party institutional and retail funds, totalled approximately £36 billion at 30 September 2003. The acquisition of RSA Investments represented a significant step for ISIS in achieving its strategic objective of becoming a leading player in both the retail and institutional asset management markets.

ISIS had net revenues of £88 million and a profit on ordinary activities before tax, amortisation of goodwill and exceptional costs, of £22 million for the year ended 31 December 2002. Earnings per share were 10.4 pence (before amortisation of goodwill and exceptional items) and dividends per share were 11.0 pence for the year.

One of the consequences of acquiring RSA Investments is that ISIS now manages insurance assets on behalf of two major insurance groups and has the skills and knowledge to develop further in this area. The nature of the assets, with a significant portion in fixed income, property and cash, taken together with the fee basis, results in a diversified and relatively stable source of income in respect of the insurance assets it manages.

The table below shows the division of the total funds under management as at 30 September 2003 by asset allocation

	£bn
Asset allocation	
Fixed Interest	31.8
UK equities	15.2
Overseas equities	5.9
Private equity	0.4
Property	4.6
Liquidity	4.0
	61.9

	£bn
Product type	
Life and pensions	53.5
Open ended products (third party)	1.9
Investment trusts	1.3
Institutional clients	4.8
Limited partnerships	0.2
Venture capital trusts	0.2
	61.9

Source: Extracted from the announcements made by the Issuer and ISIS on 28 October 2003.

Product Offerings

In addition to providing clients with a tailored investment product across all major markets, ISIS also has a number of specialist product offerings to both the institutional and the retail market. ISIS has specialist investment teams covering ethical and socially responsible investment, the AIM market, the investment trust sector, private equity, fixed interest and property. The product range includes limited partnerships, venture capital trusts, investment trusts and pooled and segregated pension fund products. A number of these specialist areas have good growth potential and also offer premium fee levels. In addition to building scale, ISIS is focusing on increasing its share of these attractive higher margin markets.

In the institutional market, which is dominated by investment consultants, ISIS is focusing on providing its investment product to UK pension funds, either on a segregated basis or through its pooled managed pension fund offerings.

In relation to the retail market, ISIS had, until recently, focused on specialist products, including venture capital trusts (an area where it is a leading manager in the UK market) and a range of investment trusts and related products ranging from income growth in the UK through to capital growth from Pacific rim equity investment. More recently, it started to address on a wider scale the mainstream retail market through a range of unit trusts and ISAs, tailoring its products and services to meet the requirements of this market. ISIS believes that the acquisition of RSA Investments will significantly enhance the mainstream retail business, bringing further specialist funds with highly respected fund managers. ISIS has recently completed a programme of converting its unit trusts to OEICs, rebranding them under the ISIS name and rationalising the enlarged product range through fund mergers. ISIS believes that these actions will create the platform to capture a greater share of this sector.

Distribution

ISIS distributes its products to both the institutional and the retail markets through specialist teams. Retail distribution is split between the two core businesses of the Group, with ISIS concentrating on that sector of the IFA market which typically advises sophisticated investors or high net worth individuals seeking investment products of a specialist or specific nature. The balance of the IFA market, together with the direct channel and telesales operation, is covered by the Life and Pensions distribution network. This network acts as a non-exclusive marketing agent for ISIS under a formalised marketing agreement on arm's length commercial terms.

Principal Subsidiary and Associated Undertakings of the Group

The principal subsidiary and associated undertakings of the Group at the date of this Offering Circular are shown below.

Except where stated, each of these was wholly owned and incorporated in England and Wales and has only one class of issued ordinary shares. The voting rights are equal to the percentage holdings unless otherwise stated. Other subsidiaries do not materially affect the results of the Group.

	Percentage held
Life and Pensions business	
Holding companies	
Friends Provident Investment Holdings Limited (i)	100
FP Group Limited	100
London and Manchester Group Limited	100
Life Assurance and Pensions	
Friends Provident Life and Pensions Limited	100
FP Life Assurance Limited	100
Friends Provident Pensions Limited	100
Friends Provident International Limited (ii)	100
Non-insurance financial services	
Friends Milestones Limited	100
Pan European insurance	
European Alliance Partners Company A.G. (associated undertaking) (iii)	14.29
Management services	
Friends Provident Management Services Limited	100
Finance companies	
FP Finance PLC	100
Friends Provident (Jersey) Limited (iv)	100
Trustee company	
Friends Provident Pension Scheme Trustees Limited	100
Property companies	
Benchmark Group Plc	35
London Capital Holdings Limited	
Ordinary shares	100
Deferred shares	100
Asset Management business	
ISIS Asset Management plc (v)	
Ordinary shares	67.22
Variable rate cumulative preference shares	100
ISIS Managed Pension Funds Limited (vi)	67.22
Friends' Provident Unit Trust Managers Limited	67.22
ISIS Investment Management Limited (vii)	67.22
ISIS Fund Management Limited (viii)	67.22

(i) Has issued class 'A' and 'B' ordinary shares.

(ii) Incorporated in the Isle of Man (name changed from Royal & SunAlliance International Financial Services Limited on 15 August 2002).

(iii) Incorporated in Switzerland.

(iv) Incorporated in Jersey.

(v) Name changed from Friends Ivory & Sime plc on 27 September 2002.

(vi) Name changed from Friends Ivory & Sime Managed Pension Funds Limited on 30 September 2002.

(vii) Name changed from Royal & SunAlliance Investment Management Limited on 30 September 2002.

(viii) Name changed from Royal & SunAlliance Unit Trust Management Limited on 19 September 2002.

Directors of the Issuer

The Issuer was incorporated under the Companies Acts 1985 and 1989 (as amended) as a public limited company with limited liability in England and Wales on 23 November 2000 and registered in England and Wales with registered number 4113107. The Issuer is the holding company of a group of companies engaged in two core businesses of Life and Pensions and Asset Management.

As at the date of this Offering Circular, the authorised share capital of the Issuer is £250,000,000 divided into 2,500m ordinary shares of 10 pence each, 1,721,921,688 of which have been issued and are fully paid.

The directors of the Issuer are:

Name	Responsibility in relation to the Issuer	Other significant directorships
David Kennedy Newbigging, OBE	Chairman	Benchmark Group PLC Merrill Lynch & Co. Inc. PACCAR Inc. Faupel Trading Group Plc
Keith Satchell, BSc, FIA	Group Chief Executive	Banco Comercial Português SA European Alliance Partners Company AG Friends Provident Life and Pensions Limited FP Finance PLC ISIS Asset Management plc Swiss Mobiliar Cooperative Company
Lady Barbara Singer Judge, BA, JD	Deputy Chairman Senior Independent Director	Axon Group plc Capital Radio plc Private Equity Investor plc
Graham Kenneth Aslet, MA, FIA	Director and Appointed Actuary	Friends Provident Life and Pensions Limited FP Finance PLC
Alison Carnwath BA, ACA	Independent Director	Gallaher Group plc Man Group plc
Howard Carter, BA, MA	Executive Director	ISIS Asset Management plc
Alastair Roy Geoffrey Gunn, MA, FCII	Executive Director	Friends Provident Life and Pensions Limited
The Rt. Hon. Lord MacGregor of Pulham Market, OBE, MA	Independent Director	Associated British Foods plc Slough Estates plc Uniq plc
Christopher Martin Jemmett	Independent Director	Council of the Crown Agents Foundation ISIS Asset Management plc
Philip Wynford Moore, TD, MA, FIA	Group Finance Director	Friends Provident Life and Pensions Limited FP Finance PLC
Roger Fairbrook Harper Morton, MA, CPFA, ASIP	Independent Director	None
Brian William Sweetland, LLB, Solicitor, Acol	Director and Secretary	Benchmark Group PLC ISIS Asset Management plc FP Finance PLC

The registered and head office of the Issuer and the business address of each of the directors for matters covering the Issuer's business is Pixham End, Dorking, Surrey, RH4 1QA.

PART 6A: CONSOLIDATED CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the consolidated capitalisation and indebtedness of the Issuer as extracted without material adjustment from the unaudited interim accounts of the Issuer as at 30 June 2003 and the underlying financial records of the Issuer:

	30 June 2003
	£m
Borrowings[1] [2]	
9.125 per cent. Subordinated loan[3]	
Due after more than one year and less than five years	215
5.25 per cent. Convertible Bonds[4]	
Due after more than one year and less than five years	284
Debenture loans[5]	
8.125 per cent. Debenture loan	
Due after more than one year and less than five years	51
Other loan notes[6]	
Due within one year or on demand	14
Obligations under finance lease[7]	
Due within one year or on demand	1
Total borrowings	565
Shareholders' funds[1]	
Share capital[8]	
Ordinary share capital	172
Share premium accounts	1,446
Retained profit and reserves	278
Total shareholders' funds	1,896

Notes

(1) The shareholder's funds and borrowings are based on consolidated figures as at 30 June 2003. Shareholders' funds are shown net of an interim dividend of £43 million payable 28 November 2003.

(2) Borrowings exclude intra group loans.

(3) The subordinated loan of £215 million is guaranteed on a subordinated basis by FPLP. The borrowing is unsecured and redemption is at the option of FP Finance PLC but is not generally allowable prior to 25 November 2006.

(4) The convertible bonds are carried at £284m, being £290m less capitalised issue costs of £6m. The bonds are unguaranteed and unsecured and convertible at the options of the holder to ordinary shares at any time on or after 21 January 2003 and up to 5 December 2007. The number of ordinary shares to be issued on conversion will be determined by dividing the principal amount of the relevant bonds by the conversion price in effect on the relevant conversion date. The initial conversion price is £1.71 per ordinary share. Unless previously purchased and cancelled, redeemed or converted, the bonds will be redeemed on 11 December 2007 at their principal amount.

(5) The debenture loan of £51 million is unguaranteed and is secured on specific assets. It is repayable in November 2004.

(6) Loan notes issued by FP Business Holdings Limited are fully paid, unsecured and guaranteed by FPLP. The notes are repayable at par in 2006 and may be redeemed at the holder's request on set dates in any year until 2006.

(7) All material amounts of these borrowings are unsecured and not guaranteed.

(8) The authorised share capital of the Issuer is £250,000,000 divided into 2,500m ordinary shares of 10 pence each, of which 1,722m had been issued at 30 June 2003 and are fully paid up.

(9) Contingent liabilities of the Group as at 30 June 2003: the Group has contingent liabilities in respect of mortgage endowment complaints and policyholder contracts. These cannot be quantified and are described further in Note 9 of the Modified Statutory Solvency results of the Issuer's unaudited consolidated interim report & accounts for the half year to 30 June 2003. The following is extracted, without material adjustment from this source:

Contingent liabilities

Market falls during 2002 and continued volatile markets during the first half of 2003 have led to a considerable increase in the number of complaints received by the industry in respect of endowment policies. At 30 June 2003, the balance sheet includes a provision of £40m covering both an estimate of all outstanding complaints received by the Group and an estimate in respect of complaints not yet received. Future regulatory actions or statements could increase the estimated costs. The impact of such potential future actions cannot be reliably estimated.

Provision for liabilities in connection with policyholder contracts are based on best estimate assumptions, using historical experience but adjusted where there is reasonable cause to expect future experience to be different. However, actual experience may differ from that assumed. Regulatory action, legal judgments, future economic conditions or other unforeseen events may impact ultimate settlements made.

(10) Except as disclosed above, the Issuer had, as at 30 June 2003, no borrowings, indebtedness, material guarantees or material contingent liabilities.

(11) There has been no material change in the consolidated capitalisation or indebtedness or contingent liabilities or guarantees of the Issuer since 30 June 2003.

PART 7: THE GUARANTOR

The Guarantor, Friends Provident Life and Pensions Limited, is a wholly owned subsidiary of Friends Provident plc, the holding company for the Friends Provident Group.

The Guarantor was incorporated in 25 October 2000 under the Companies Acts 1985 and 1989 (as amended) as a company with limited liability in England and Wales and registered in England and Wales with registered number 4096141.

Further information on the Life and Pensions business is contained in Part 6 of this document.

Principal Subsidiaries and Associated Undertakings of the Guarantor

The principal subsidiaries and associated undertakings of the Guarantor at the date of this Offering Circular are shown below.

Except where stated, each of these was wholly owned and incorporated in England and Wales and have only one class of issued ordinary shares. The voting rights are equal to the percentage holdings unless otherwise stated. Other subsidiaries do not materially affect the Guarantor.

	Percentage held
Friends Provident Pensions Limited	100
Friends Provident International Limited(i)	100
Friends Provident Investment Management Luxembourg SA(ii)	100
Friends Provident Investment Holdings Limited(iii)	100
FP Business Holdings Limited	100*
FP Group Limited	100
FP Life Assurance Limited	100*
Friends Provident Services Limited	100*
FP Finance PLC	100
London Capital Holdings Limited	
Ordinary shares	
– Direct Holding	65
– Indirect Holding	35*
Deferred shares	
– Direct Holding	84
– Indirect Holding	16*

* held by subsidiary

(i) Registered in the Isle of Man. Name changed from Royal & SunAlliance International Financial Services Limited on 15 August 2002.

(ii) Registered in Luxembourg. Name changed from Royal & SunAlliance Investment Management Luxembourg SA on 3 March 2003.

(iii) Has issued class 'A' and 'B' ordinary shares.

Directors

The directors of the Guarantor are:

Name	Responsibility in relation to the Guarantor	Other significant directorships
Keith Satchell, BSc, FIA	Executive Chairman	Friends Provident plc Banco Comercial Português SA European Alliance Partners Company AG FP Finance PLC ISIS Asset Management plc Swiss Mobiliar Cooperative Company
Graham Kenneth Aslet, MA, FIA	Executive Director and Appointed Actuary	Friends Provident plc FP Finance PLC
Simon John Clamp, BSc	Executive Director	
Alastair Roy Geoffrey Gunn, MA, FCII	Executive Director	Friends Provident plc
Michael Anthony Hampton, MA, FPMI	Executive Director	
Graham Harvey, FCCA, MBA	Executive Director	
Andrew Philip Jackson, BSc, FIA	Executive Director	
Jamie Robert McIver	Executive Director	
Philip Wynford Moore, TD, MA, FIA	Executive Director	Friends Provident plc FP Finance PLC
Jane Stevens BSc, FIA	Executive Director	

The registered and head office of the Guarantor and the business address of each of the directors for matters covering the Guarantor's business is Pixham End, Dorking, Surrey, RH4 1QA.

PART 7A: CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the capitalisation and indebtedness of the Guarantor as extracted without adjustment from the unconsolidated unaudited accounts of the Guarantor as at 30 June 2003 and the underlying financial records of the Guarantor:

	30 June 2003
	£m
Borrowings	
Subordinated loan from FP Finance PLC to FPLP repayable between 2 and 5 years ..	215
Total borrowings	215
Shareholders' funds	
Ordinary share capital[1]	654
Share premium account	721
Profit and loss account	387
Total shareholders' funds..	1,762

(1) The authorised share capital of the Guarantor is £1 billion, divided into 1 billion ordinary shares of £1, of which 654 million had been issued at 30 June 2003 and are fully paid up.

(2) Guarantees:

(a) On 25 November 1996 FP Finance PLC, then a wholly owned subsidiary of Friends' Provident Life Office, issued £215 million of 9.125% Undated Subordinated Guaranteed Bonds, guaranteed by FPLO. The borrowing is unsecured and redemption is at the option of FP Finance PLC and is not generally allowable prior to 25 November 2006. The Bonds were guaranteed on a subordinated basis by FPLO after the claims of FPLO's senior creditors including all policyholder liabilities. On 9 July 2001, FPLO demutualised under the terms of a scheme under Schedule 2C to the Insurance Companies Act 1982, and the Guarantor replaced FPLO as the guarantor of the bonds. The market value of the bonds at 30 June 2003 was £218 million (31 December 2002: £227 million).

The related loan of £215 million from FP Finance PLC to the Guarantor, is under the same interest, repayment and subordinated terms as are applicable to the Undated Subordinated Guaranteed Bonds.

(b) £14 million of loan notes issued by FP Business Holdings Limited on 25 November 1996 are fully paid, unsecured and guaranteed by the Guarantor. The notes are repayable at par in 2006 and may be redeemed at the holder's request on set dates in any year until 2006.

(3) Contingent liabilities of the Guarantor: the Guarantor has contingent liabilities in respect of mortgage endowment complaints and policyholder contracts. Please refer to Note 30 of the audited Guarantor's Modified Statutory Accounts and page 46 above (Mortgage Endowment Complaints). These cannot be quantified. A provision of £40m covering both an estimate of all outstanding complaints received by the Group and an estimate in respect of complaints not yet received is included on the balance sheet (as at 30 June 2003) in the Modified Statutory Solvency results of the Issuer's unaudited consolidated interim report & accounts for the half year to 30 June 2003 as detailed in Note 9 of the Issuer's Consolidated Capitalisation and Indebtedness table on page 51.

(4) Except as disclosed above, the Guarantor had, as at 30 June 2003, no borrowings, indebtedness, material guarantees or material contingent liabilities.

(5) All material amounts of the above borrowings are unsecured.

(6) There has been no material change in the capitalisation or indebtedness or contingent liabilities or guarantees of the Guarantor since 30 June 2003.

PART 8: REGULATORY ENVIRONMENT

Insurance business – Introduction

A number of companies in the Group, including the Guarantor, are UK-authorised insurance companies (the Guarantor is also authorised in Guernsey) and are subject to the regulation and supervision of the Financial Services Authority (the "FSA") under the Financial Services and Markets Act 2000 (the "FSMA") and rules and guidance made under the FSMA. Friends Provident International Limited is an insurance company authorised in the Isle of Man.

Permission to Carry on Regulated Activities

Subject to the exemptions provided in the FSMA, no person may carry on a regulated activity (which includes effecting or carrying out contracts of insurance) unless permitted to do so by the FSA. The FSA, in deciding whether to grant permission to carry on a regulated activity, is required to determine whether the applicant satisfies, and will continue to satisfy, the threshold conditions set out in rules made under the FSMA in relation to the type of regulated activity for which the applicant is seeking permission. If it so chooses, the FSA may impose additional conditions.

Regulatory Reporting

UK insurance companies have to prepare their accounts in accordance with special provisions applicable to them under the Companies Act 1985, and are required to file, and provide their shareholders with, audited financial statements and related reports. Insurance companies are currently required to file audited accounts and other prescribed documents with the FSA within three months of the end of the relevant financial year if the deposit is made electronically and otherwise within two months and fifteen days of the end of their financial year. The FSA may impose additional reporting requirements.

Solvency Margins

Under the Interim Prudential Sourcebook for Insurers published by the FSA ("IPRU (INS)"), UK insurance companies are required to maintain a solvency margin, which is to say that the admissible value of their long term business assets must exceed the value of their long term liabilities by a prescribed amount, as calculated in accordance with the relevant valuation rules. Failure to maintain the required margin of solvency is one of the grounds upon which the FSA may exercise its power of intervention.

Long Term Assets and Liabilities

Under IPRU (INS), separate accounting and other records must be maintained and a long term business fund must be established as a separate fund to hold assets and liabilities applicable to long term business. There are restrictions relating to the use of the assets in this fund.

Supervision and Enforcement

The FSA has increased powers to supervise, and intervene in, the affairs of an insurance company under the FSMA. It can, for instance, require firms to provide particular information or documents to it, require a firm to prepare a "skilled persons" report or formally investigate a firm. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation.

Asset Management and Other Areas of Regulation

ISIS Asset Management plc is the holding company of a group which carries on asset management and other regulated activities under the FSMA on behalf of the Group and third parties.

Future Developments

The FSA intends to issue the Integrated Prudential Sourcebook, which combines the prudential requirements for all authorised firms in one publication and is expected to include requirements on firms to analyse the risks within their business and to align their capital more closely to those risks in 2004. This sourcebook will contain further disclosure and regulatory requirements.

PART 9: FINANCIAL INFORMATION OF THE ISSUER AND THE GUARANTOR

The following information is provided:

(i) unaudited consolidated interim results for the 6 months ended 30 June 2003 of the Issuer on an Achieved Profit basis on pages 59 to 62. This information is extracted without material adjustment from the unaudited consolidated interim accounts of the Issuer for the 6 months ended 30 June 2003.

(ii) audited Modified Statutory Solvency results of the Issuer for the year ended 31 December 2002 on pages 63 to 68. This information is extracted without material adjustment from the audited consolidated accounts of the Issuer for the year ended 31 December 2002.

(iii) The full Annual Report & Accounts of the Guarantor for the year ended 31 December 2002 on a Modified Statutory Solvency basis. This information has been extracted without material adjustment from the audited (unconsolidated) accounts of the Guarantor for the year ended 31 December 2002.

FRIENDS PROVIDENT PLC

UNAUDITED INTERIM ACHIEVED PROFIT RESULTS

Summary consolidated profit and loss account for the half year ended 30 June 2003

	Half year ended 30 June 2003	Half year ended 30 June 2002	Full year ended 31 December 2002
	£m	*£m*	*£m*
Operating profit			
Life & Pensions achieved operating profit	127	127	247
Asset Management	12	13	23
Expected return on net pension asset	3	12	23
Expected return on corporate net assets	(2)	14	22
Corporate costs	(5)	(5)	(10)
Operating profit before amortisation of goodwill, operating exceptional items and tax	135	161	305
Operating exceptional items: Integration costs	(11)	—	(22)
Amortisation of Asset Management goodwill	(9)	(1)	(12)
Operating profit on ordinary activities before tax	115	160	271
Investment return variances	98	(356)	(848)
Effect of economic assumption changes	(118)	(46)	(161)
Profit/(Loss) on ordinary activities before tax	95	(242)	(738)
Tax on operating profit before amortisation of goodwill and operating exceptional items	(44)	(48)	(93)
Tax credit on items excluded from operating profit before amortisation of goodwill and operating exceptional items	9	110	289
Profit/(Loss) on ordinary activities after tax	60	(180)	(542)
Equity minority interests	3	(2)	4
Profit/(Loss) after tax attributable to equity Shareholders	63	(182)	(538)
Dividend	(43)	(42)	(125)
Based on operating profit on an achieved profit basis before amortisation of goodwill			
Retained profit/(loss) for the financial period	20	(224)	(663)
Earnings/(Loss) per share[(i)]			
Based on profit/(loss) after tax attributable to equity shareholders – basic and diluted	3.7p	(10.6)p	(31.2)p
Based on operating profit on an achieved profit basis before goodwill and operating exceptional items, after tax attributable to equity shareholders	5.2p	6.4p	12.5p
Dividend per share	2.50p	2.45p	7.25p

(i) 30 June 2002 earnings per share has been restated for the bonus shares issued on 2 August 2002. On 2 August 2002, 11,513,413 new ordinary shares of 10p each were issued as bonus shares to shareholders on the basis of one bonus share for every complete twenty shares acquired in the Preferential Offer on 9 July 2001 and held continuously up to and including 9 July 2002. The share premium account has been applied by the company in paying up these bonus shares.

FRIENDS PROVIDENT PLC

UNAUDITED INTERIM ACHIEVED PROFIT RESULTS

Consolidated statement of total recognised gains and losses for the half year ended 30 June 2003

	Half year ended 30 June 2003	Half year ended 30 June 2002	Full year ended 31 December 2002
	£m	*£m*	*£m*
Profit/(Loss) after tax attributable to equity shareholders ..	63	(182)	(538)
Pension scheme losses	(4)	(113)	(222)
Deferred taxation on pension scheme losses	1	34	67
Equity minority interests on pension scheme losses (net of deferred taxation)	—	1	2
Total recognised gains and losses arising in the period	60	(260)	(691)

Life & Pensions achieved profit
For the half year ended 30 June 2003

	Half year ended 30 June 2003	Half year ended 30 June 2002	Year ended 31 December 2002
	£m	*£m*	*£m*
Contribution from new business	35	29	66
Cost of solvency capital and pension service charge	(8)	(9)	(17)
Contribution from new business attributable to shareholders (after the cost of solvency capital and pension service charge)	27	20	49
Profit from existing business			
– expected return	66	77	163
– experience variances	(9)	(9)	(6)
– operating assumption changes	—	—	(30)
Development costs	(12)	(15)	(27)
Expected return on shareholders' net assets within the Life & Pensions business	55	54	98
Life & Pensions achieved operating profit before operating exceptional items and tax	127	127	247
Operating exceptional items: Integration costs	(3)	—	(3)
Life & Pensions achieved operating profit before tax	124	127	244
Investment return variances	105	(312)	(785)
Effect of economic assumption changes	(118)	(46)	(161)
Life & Pensions achieved profit/(loss) before tax..	111	(231)	(702)
Attributed tax (charge)/credit	(33)	69	211
Life & Pensions achieved profit/(loss) after tax	78	(162)	(491)

FRIENDS PROVIDENT PLC

UNAUDITED INTERIM ACHIEVED PROFIT RESULTS

Group embedded value
At 30 June 2003

	30 June 2003	30 June 2002	31 December 2002
	£m	*£m*	*£m*
Attributable net asset value of Asset management business (excluding goodwill)(i)	(117)	46	(112)
Net pension (liability)/asset of FPPS(i)	(20)	58	(14)
Shareholders' invested net assets(ii)	1,212	1,449	1,222
Shareholders' net worth	1,075	1,553	1,096
Value of in-force Life & Pensions business	1,245	1,400	1,202
Adjustment of the value of Asset management business to market value	316	184	292
Embedded value	2,636	3,137	2,590

(i) The attributable net asset value of Asset Management business includes the value of the net pension liability/asset of that business on a Financial Reporting Standard 17 (Retirement benefits) ("FRS 17") basis and is net of related deferred taxation. The net pension liability/asset of Friends Provident Pension Scheme ("FPPS") is stated on an FRS17 basis and is net of related deferred taxation.

(ii) Shareholders' invested net assets

	30 June 2003	30 June 2002	31 December 2002
	£m	*£m*	*£m*
Life & Pensions – long-term funds	838	797	793
Life & Pensions – shareholder funds	429	334	440
Life & Pensions net assets	1,267	1,131	1,233
Corporate net (liabilities)/assets	(55)	318	(11)
Shareholders' invested net assets	1,212	1,449	1,222

Unencumbered capital, which is defined as Life & Pensions net assets less solvency margin requirements in respect of business written in Non Profit funds less the statutory deficit in the With Profits Fund, amounted to £808m (30 June 2002: £1,051m; 31 December 2002: £788m).

FRIENDS PROVIDENT PLC

UNAUDITED INTERIM ACHIEVED PROFIT RESULTS

Movement in the Group embedded value
For the half year ended 30 June 2003

	Half year ended 30 June 2003	Half year ended 30 June 2002	Full year ended 31 December 2002
	£m	*£m*	*£m*
Opening embedded value	2,590	3,456	3,456
Consolidated recognised gains/(losses) arising in the period including the Life & Pensions business on an achieved profit basis	60	(260)	(691)
Movement in the adjustment of the value of Asset Management business to market value..	29	(17)	(50)
Dividend	(43)	(42)	(125)
Closing embedded value	2,636	3,137	2,590

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002

The financial information for the period ended 31 December 2002 on pages 63 to 68 represents the audited Modified Statutory Solvency results of the Group. This information is extracted without material adjustment from the audited consolidated accounts of the Group for the year ended 31 December 2002.

Consolidated Profit and Loss Account

Long-term business technical account for the year ended 31 December 2002

	2002	2001*
	£m	*£m*
Earned premiums, net of reinsurance		
Gross premium written		
Acquisitions	116	—
Other continuing operations	2,874	1,479
	2,990	1,479
Outward reinsurance premiums	(11)	(1)
	2,979	1,478
Investment income	1,173	567
Other technical income	23	206
Total technical income	4,175	2,251
Claims incurred, net of reinsurance		
Claims paid		
gross amount	2,974	1,361
reinurers' share	(14)	(3)
	2,960	1,358
Change in the provision for claims	7	(3)
	2,967	1,355
Change in other technical provisions, net of reinsurance		
Long term business provision, net of reinsurance		
gross amount	(868)	337
reinsurers' share	707	13
	(161)	350
Other technical provisions net of reinsurance		
Technical provision for linked liabilities	(1,702)	(384)
	(1,863)	(34)
Net operating expenses	126	161
Investment expenses and charges	449	289
Unrealised losses on investments	3,638	696
Other technical charges	49	19
Tax attributable to the long-term business	5	(42)
Allocated investment return transferred from the non-technical account	(228)	(66)
Transfers from the fund for future appropriations	(1,166)	(199)
Total technical charges	3,977	2,179
Balance on the long-term business technical account	198	72

All of the amounts above are in respect of continuing operations.

* For the period 23 November 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002

Consolidated profit and loss account continued

Non-technical account for the year ended 31 December 2002

	2002	As restated(ii) 2001*
	£m	£m
Balance on the long-term business technical account	198	72
Tax credit attributable to balance on long-term business technical account	85	31
Profit before tax from long-term business	283	103
Investment income	52	28
Allocated investment return transferred to long-term business technical account	(228)	(66)
Investment expenses and charge	(69)	(9)
Unrealised losses on investments	(48)	(13)
Analysis of other income		
– acquisitions	23	—
– other continuing operations	30	20
Other income	53	20
Other charges, including value adjustments	(80)	(22)
Exceptional items relating to Asset Management operations	—	(2)
Analysis of (loss)/ profit on ordinary activities before tax		
– acquisitions	(23)	—
– other continuing operations	(14)	39
(Loss)/Profit on ordinary activities before tax	(37)	39
Tax on (loss)/profit on ordinary activities	(33)	(15)
(Loss)/Profit on ordinary activities after tax	(70)	24
Equity minority interests	4	(1)
(Loss)/Profit after tax attributable to equity shareholders	(66)	23
Dividend	(125)	(60)
Retained loss for the year transferred to reserves	(191)	(37)
(Loss)/Earnings per share (i)		
Based on (loss)/profit attributable to equity shareholders – basic and diluted	(3.8)p	1.8p
Based on operating profit (based on longer-term investment return) before amortisation of goodwill and operating exceptional items, after tax, attributable to equity shareholders for the financial period	14.5p	7.5p
Based on operating profit (based on longer-term investment return) before amortisation of goodwill and operating exceptional items, after tax, attributable to equity shareholders using the weighted average number of shares for the trading period	14.5p	5.7p
Dividend per share		
– interim	2.45p	—
– final	4.80p	3.50p

All of the amounts above are in respect of continuing operations.

* For the period 23 November 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

(i) 2001 earnings per share has been restated for the bonus shares issued on 2 August 2002.

(ii) 2001 'Other income' and 'Other charges' restated.

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

Operating Profit (based on longer-term investment return) before amortisation of goodwill, operating exceptional items and tax; and reconciliation to profit after tax

For the year ended 31 December 2002

	2002	2001*
	£m	*£m*
Life & Pensions	332	127
Asset Management	23	13
Operating profit before amortisation of goodwill, operating exceptional items and tax	355	140
Operating exceptional items: Integration costs	(21)	—
Amortisation of goodwill	(23)	(7)
Operating profit on ordinary activities before tax	311	133
Short term fluctuations in investment return	(348)	(92)
Exceptional items relating to Asset Management operations	—	(2)
(Loss)/Profit on ordinary activities before tax	(37)	39
Tax on operating profit before amortisation of goodwill and operating exceptional items	(109)	(42)
Tax credit on items excluded from operating profit before amortisation of goodwill and operating exceptional items	76	27
Equity minority interests	4	(1)
(Loss)/Profit after tax attributable to equity shareholders	(66)	23

* For the period 23 November 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

Operating Profit (based on longer-term investment return) on ordinary activities before tax

For the year ended 31 December 2002

	2002	2001*
	£m	*£m*
Life & Pensions	319	121
Asset Management	(8)	12
Operating profit on ordinary activities before tax	311	133
Acquisitions	(23)	—
Other continuing operations	334	133
Operating profit on ordinary activities before tax	311	133

* For the period 23 November 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2002

	2002	2001*
	£m	*£m*
(Loss)/Profit after tax attributable to equity shareholders	(66)	23
Pension scheme losses	(222)	(74)
Deferred taxation on pension scheme losses	67	22
Equity minority interest on pension scheme losses and deferred taxation on pension scheme losses	2	—
Foreign exchange losses	—	(1)
Total recognised losses arising in the period	(219)	(30)

* For the period 23 November 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

Reconciliation of movements in consolidated shareholders' funds
For the year ended 31 December 2002

	£m
Total recognised losses arising in the year	(219)
Dividend	(125)
Net reductions to shareholders' funds	(344)
Shareholders' funds at beginning of year	2,225
Shareholders' funds at end of year	1,881

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2002

Consolidated Balance Sheet

At 31 December 2002

	2002	2001
	£m	£m
Assets		
Intangible assets		
Licence	16	—
Goodwill	445	256
	461	256
Investments		
Land and buildings	1,532	1,533
Investments in participating interests	17	19
Other financial investments	18,088	20,079
	19,637	21,631
Present value of acquired in-force business	169	123
Assets held to cover linked liabilities	8,975	8,706
Reinsurers' share of technical provisions		
Long-term business provision	99	806
Claims outstanding	1	1
	100	807
Debtors		
Debtors arising out of direct insurance operations		
Policyholders	26	32
Intermediaries	24	6
Debtors arising out of reinsurance operations	1	2
Other debtors	118	82
	169	122
Other assets		
Tangible assets	32	43
Cash at bank and in hand	179	319
	211	362
Prepayments and accrued income		
Accrued interest and rent	170	150
Deferred acquisition costs	855	553
Other prepayments and accrued income	10	7
	1,035	710
Total assets excluding net pension asset	30,757	32,717
Net pension asset	—	133
Total assets including net pension asset	30,757	32,850

FRIENDS PROVIDENT PLC

AUDITED MODIFIED STATUTORY SOLVENCY RESULTS
FOR THE PERIOD ENDED 31 DECEMBER 2002

Consolidated Balance Sheet

At 31 December 2002

	2002	2001
	£m	*£m*
Liabilities		
Capital and reserves		
Called up share capital	172	171
Share premium account	1,446	1,447
Profit and loss account	263	607
Equity shareholders' funds	1,881	2,225
Equity minority interests	52	63
Total capital and reserves	1,933	2,288
Subordinated liabilities	215	215
Fund for future appropriations	81	1,247
Technical provisions		
Long-term business provision	18,608	19,441
Claims outstanding	81	74
	18,689	19,515
Technical provisions for linked liabilities	8,975	8,706
Provisions for other risks and charges	70	120
Creditors		
Creditors arising out of direct insurance operations	62	69
Creditors arising out of reinsurance operations	12	—
Debenture loans	65	71
Convertible bonds	284	—
Amounts owed to credit institutions	—	361
Other creditors including taxation and social security	284	191
	707	692
Accruals and deferred income	67	67
Total liabilities excluding net pension liability	30,737	32,850
Net pension liability	20	—
Total liabilities including net pension liability	30,757	32,850

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

AUDITED MODIFIED STATUTORY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

The financial information for the year ended 31 December 2002 on pages 69 to 98 represents the audited Modified Statutory Solvency results of the Guarantor. This information is extracted without material adjustments from the audited annual report and accounts of Friends Provident Life and Pensions Limited for the year ended 31 December 2002.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

We have audited the financial statements on pages 8 to 36 which have been prepared in accordance with the accounting policies set out on pages 13 to 16.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the statement of Directors' responsibilities, on pages 5 and 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirement, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our audit report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

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

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors

Southwark Towers
32 London Bridge Street
London
SE1 9SY

4 March 2003

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

LONG-TERM BUSINESS TECHNICAL ACCOUNT

	Notes	31 December 2002	Period Ended 31 December 2001*
		£m	£m
Earned premiums, net of reinsurance			
Gross premiums written	2	2,200	1,336
Outward reinsurance premiums		(562)	(543)
		1,638	793
Investment income	4	889	429
Other technical income	5	24	191
Total technical income		2,551	1,413
Claims incurred, net of reinsurance			
Claims paid			
– gross amount		2,926	1,139
– reinsurers' share		(754)	(165)
		2,172	974
Change in the provision for claims			
– gross amount		5	(3)
– reinsurers' share		—	(1)
		5	(4)
		2,177	970
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
– gross amount	20	(1,136)	343
– reinsurers' share	20	674	(270)
		(462)	73
Technical provision for linked liabilities			
– gross amount	20	(871)	5
– reinsurers' share	20	289	(71)
		(582)	(66)
		(1,044)	7
Net operating expenses	7	61	120
Investment expenses and charges	4	56	174
Unrealised losses on investments	4	2,366	397
Other technical charges	6	19	1
Tax attributable to the long-term business	9	(30)	(28)
Transfers from the fund for future appropriations		(1,101)	(204)
		1,371	460
Total Technical Charges		2,504	1,437
Balance on the long-term business technical account		47	(24)

Notes
All amounts above are in respect of continuing operations. The long-term business technical account includes all recognised gains and losses attributable to policyholders.
* For the period 25 October 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

The Notes on pages 13 to 36 form an integral part of these financial statements.

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

NON-TECHNICAL ACCOUNT

	Notes	31 December 2002	Period Ended 31 December 2001*
		£m	*£m*
Balance on the long-term business technical account		47	(24)
Tax attributable to balance on long-term business technical account	9	20	(11)
		67	(35)
Investment income	4	4	—
Investment expenses and charges	4	(51)	—
Unrealised losses on investments	4	(14)	(21)
Other charges	8	(2)	—
Profit/(loss) on ordinary activities before tax	4	(56)	
Tax on profit/(loss) on ordinary activities..	9	(20)	11
Profit/(loss) on ordinary activities after tax		(16)	(45)
Dividend	10	(340)	(50)
Retained loss for the financial period transferred to reserves ..	18	(356)	(95)

Notes
All of the amounts above are in respect of continuing operations. There is no difference between the results disclosed above and the results on a modified historical cost basis.
* For the period 25 October 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

The Notes on pages 13 to 36 form an integral part of these financial statements.

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	31 December 2002	Period Ended 31 December 2001*
		£m	£m
Reserve arising on the transfer in by Schedule 2C transfer of the business of Friends' Provident Life Office		—	769
Share capital issued during the period, including share premium, net of expenses	18	634	741
Total recognised profits/(losses) arising in the year		(16)	(45)
Dividend	10	(340)	(50)
Net additions to shareholders' funds		278	1,415
Shareholders' funds at beginning of year		1,415	—
Shareholders' funds at end of year		1,693	1,415

* For the period 25 October 2000 to 31 December 2001. Trading period 9 July to 31 December 2001.

The Notes on pages 13 to 36 form an integral part of these financial statements.

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	31 December 2002	31 December 2001
		£m	£m
ASSETS			
Intangible assets			
Licence	6&11	16	—
Investments			
Land and buildings	12	1,349	1,351
Investments in group undertakings and participating interests	13	1,506	1,466
Other financial investments	12	15,673	17,276
		18,528	20,093
Present value of acquired in-force business	14	46	63
Assets held to cover linked liabilities	12	1,813	2,395
Reinsurers' share of technical provisions			
Long-term business provision	20	527	1,201
Claims outstanding	1	1	
Technical provisions for linked liabilities	20	2,512	2,801
		3,040	4,003
Debtors			
Debtors arising out of direct insurance operations			
– Policyholders		23	31
– Intermediaries		24	5
Debtors arising out of reinsurance operations		1	2
Other debtors	16	71	90
		119	128
Other assets			
Cash at bank and in hand		6	87
Prepayments and accrued income			
Accrued interest and rent		146	130
Deferred acquisition costs		748	528
		894	658
TOTAL ASSETS		24,462	27,427

The Notes on pages 13 to 36 form an integral part of these financial statements.

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	31 December 2002	31 December 2001
		£m	£m
LIABILITIES			
Capital and reserves			
Called up share capital	17&18	654	20
Share premium account	18	721	721
Profit and loss account	18	318	674
Equity shareholders' funds		1,693	1,415
Subordinated liabilities	19&23	215	215
Fund for future appropriations		43	1,144
Technical provisions			
Long-term business provision	20	17,397	18,533
Claims outstanding		71	66
		17,468	18,599
Technical provisions for linked liabilities	20	4,325	5,196
Provisions for other risks and charges	22	64	118
Creditors			
Creditors arising out of direct insurance operations		17	10
Creditors arising out of reinsurance operations		3	—
Amounts owed to credit institutions	23	12	359
Other creditors including taxation and social security	24	604	347
		636	716
Accruals and deferred income		18	24
TOTAL LIABILITIES		24,462	27,427

Approved by the Board on 4 March 2003 and signed on its behalf by

K. SATCHELL
DIRECTOR

The Notes on pages 13 to 36 form an integral part of these financial statements.

FRIENDS PROVIDENT LIFE AND PENSIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

(a) Basis of presentation

The financial statements have been prepared in compliance with Section 255A of, and Schedule 9A to, the Companies Act 1985 with the exception set out in note 1(i)(i) and comply with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") issued in December 1998.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of investments as set out in note 1(i).

The company is a wholly owned subsidiary of Friends Provident plc, accounts of which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Cash Flow Statements).

(b) Premiums

Premium income in respect of single premium business and pensions business not subject to contractual regular premiums is accounted for on a cash basis. For all other classes of business premium income is accounted for in the year in which it falls due. Reinsurance premiums are accounted for when due for payment. Further details relating to the classification of new business premiums are included in note 2.

(c) Investment return

Investment return includes dividends, interest, rents, gains and losses on the realisation of investments and unrealised gains and losses. Such income includes any withholding tax but excludes other taxes such as attributable tax credits. Income from fixed interest securities together with interest, rents and associated expenses are accounted for in the period in which they accrue. Dividends are included in the profit and loss account when the securities are listed as ex-dividend. Realised gains and losses on investments are calculated as the difference between the net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously revalued, the valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return relating to investments which are directly connected with the carrying on of the long-term business is initially recorded in the long-term business technical account and, where applicable, a transfer is made to or from the non-technical account to ensure that the return remaining in the long-term business technical account attributable to shareholders reflects the long-term investment return. Other than long-term business investment income and unrealised gains and losses are recorded in the non-technical account.

(d) Claims and surrenders

All claims and surrenders due or notified are charged against revenue. Claims payable include claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

(e) Bonuses

Bonuses charged to the long-term business technical account in a given period comprise reversionary bonuses declared in respect of that period, which are provided within the calculation of the long-term business provision, and terminal bonuses paid, which are included within claims paid.

(f) Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contacts. Deferred acquisition costs comprise the costs of acquiring new insurance contracts, which are incurred during a financial period and are deferred to the extent that they are recoverable out of future revenue margins.

The rate of amortisation of deferred acquisition costs is proportional to the future margins emerging in respect of the related policies, over the full lifetime of the policies.

(g) Taxation

Taxation in the non-technical account and long-term business technical account is based on profits and income for the period as determined in accordance with the relevant tax legislation together with adjustments to provisions for prior periods.

Provision is made for deferred taxation liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account, as the investments are revalued. Deferred taxation is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and pattern of expected realisation of investments. Deferred tax liabilities are discounted using gilt yield rates appropriate to the estimated year the timing differences is expected to reverse. Deferred taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. In this case the attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

Deferred tax assets are recognised to the extent that they are regarded as recoverable.

The transfer of the balance on the long-term business technical account to or from the non-technical account is grossed up by attributable tax, using the full rate of corporation tax applicable for the period.

(h) Intangible assets

Licences acquired are capitalised in the balance sheet at cost and amortised through the profit and loss account over their expected useful economic life.

(i) Valuation of investments

Investments are shown in the balance sheet as follows:

(i) Land and buildings are valued each year on an open market basis by qualified Chartered Surveyors. Properties are valued by an external valuer at least once every 5 years. Those properties which are occupied by the Friends Provident Group are valued on an existing use basis and with vacant possession.

In accordance with Statement of Standard Accounting Practice No. 19 (Investment Properties), no depreciation is provided in respect of freehold investment properties or amortisation in respect of leasehold properties with over 20 years to expire. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. However, these properties are held solely for investment purposes and the directors consider that systematic annual depreciation would be inappropriate. Depreciation or amortisation is only one of the factors reflected in the annual valuations of properties, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

(ii) Unlisted investments, including those in participating interests, for which a market exists, are valued at the average price on the day at which they were last traded. Participations in investment pools are stated at the company's share of the net assets of the investment pool. Other unlisted investments are valued by the directors, having regard to their likely realisable value.

(iii) Listed and other quoted investments, including those in participating interests, are carried at mid-market value at the balance sheet date with the exception of those held to cover linked liabilities which are stated at market prices consistent with the pricing basis within those funds.

(iv) OEICs are carried at the market value at the balance sheet date.

(v) Unit trusts are stated at the published bid prices at the balance sheet date with the exception of those held to cover linked liabilities which are stated at market prices consistent with the pricing basis within those linked funds.

(vi) Derivatives and financial instruments are included at market value under the category of investment to which the contract relates. No adjustment is made to the classification of existing investments to reflect the effect of future settlement of these transactions.

(vii) Shares in and loans to group undertakings are stated at current value.

(viii) All other investments have been valued at their likely realisable value at the balance sheet date.

(j) Present value of acquired in-force business ("PVIF")

On acquisition of a portfolio of long-term insurance contracts, either, directly or through the acquisition of a subsidiary undertaking, the net present value of the company's interest in the expected after tax cash flows of the in-force business is capitalised in the balance sheet as an asset. That part of the company's interest, which will be recognised as profit over the lifetime of the in-force policies, is amortised and the discount unwound on a systematic basis over the anticipated lives of the related contracts.

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of the acquisition. Any amortisation or impairment charge is recorded in the long-term business technical account within "Other technical charges".

(k) Long-term reassurance contracts

Long-term business is ceded to reassurers under contracts to transfer risk. Such contracts are accounted for in the balance sheet as "reinsurers' share of technical provisions".

(l) Fund for future appropriations

The balance on this account represents funds, the allocation of which, to either participating policyholders or to shareholders, has not been determined at the balance sheet date.

(m) Long-term business provision

The long-term business provision is determined by the Appointed Actuary following annual investigation of the long-term fund, and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers. The calculation for conventional business uses the net premium valuation method and, as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses, but not terminal bonuses, by means of a reduction in the valuation rate of interest. The valuation is then adjusted for certain items, including the adding back of deferred acquisition costs implicit within the valuation method of certain contracts, the removal of certain contingency reserves and the adjustments of certain other reserves. This adjusted basis is referred to as the modified statutory solvency basis. The calculation for linked business and for income protection policies, uses the gross premium valuation method and as such includes explicit allowance for future expenses.

(n) Foreign currencies

Assets and liabilities held in foreign currencies at the balance sheet date are expressed in sterling at rates ruling on that date. Income and expenditure denominated in foreign currencies are translated at rates ruling at the date on which the transaction occurs. All resulting exchange gains and losses are included within that part of the profit and loss account in which the underlying transaction is reported.

2. Segmental information

(a) Gross premiums written by type

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Life		
Protection	126	59
Savings and investment	1,229	565
Pensions		
Individual pensions	441	262
Group pensions	366	193
Annuities	38	257
Total Life and Pensions	2,200	1,336
Premiums from non-participating contracts	191	316
Premiums from participating contracts	1,122	551
Premiums from investment linked contracts	887	469
Total	2,200	1,336

(b) Gross new premiums written by type

	Regular premiums		Single premiums	
	Full Year 2002	Period ended 31 Dec 2001	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*	*£m*	*£m*
Life				
Protection	45	18	—	—
Savings and investment	16	9	636	252
Pensions				
Individual pensions	7	13	186	126
Group pensions	70	64	118	92
Annuities	—	—	38	257
Total Life and Pensions	138	104	978	727

In classifying new business premiums the following basis of recognition is adopted:

- Single new business premiums consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals;
- Regular new business premiums consist of those contracts under which there is an expectation of continuing premiums being paid at regular intervals, including repeated or recurrent single premiums where the level of premiums is defined or where a regular pattern in the receipt of premiums has been established;
- Non-contractual increments under existing group pensions schemes are classified as new business premiums;
- Transfers between products where open market options are available are included as new business; and
- Regular new business premiums are included on an annualised basis.

(c) Annualised premium equivalent (APE) by type

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Life		
Protection	45	18
Savings and investment	79	34
Pensions		
Individual pensions	26	26
Group pensions	82	73
Annuities	4	26
Total Life and Pensions	236	177

The new Life & Pensions APE represents gross new regular premiums plus 10% of gross new single premiums.

(d) Life & Pensions gross premiums

	Full Year 2002	Period ended 31 Dec 2001
	£m	£m
Source		
United Kingdom	1,980	1,237
Rest of World	220	99
	2,200	1,336
Destination		
United Kingdom	1,937	1,215
Rest of World	263	121
	2,200	1,336

(e) Life & Pensions new business

	Regular premiums		Single premiums	
	Full Year 2002	Period ended 31 Dec 2001	Full Year 2002	Period ended 31 Dec 2001
	£m	£m	£m	£m
Source				
United Kingdom	129	99	789	643
Rest of World	9	5	189	84
	138	104	978	727
Destination				
United Kingdom	124	97	772	634
Rest of World	14	7	206	93
	138	104	978	727

(f) Profit on ordinary activities before tax

	Full Year 2002 £m	Period ended 31 Dec 2001 £m
Source		
United Kingdom	10	(54)
Rest of World	(6)	(2)
	4	(56)
Destination		
United Kingdom	11	(53)
Rest of World	(7)	(3)
	4	(56)

(g) Net Assets

The net assets supporting the rest of world geographical segment are of a similar nature to the net assets held by the United Kingdom segment.

3. Outward reinsurance premiums

Outward reinsurance premiums include reinsurance premium rebates, net of a provision for clawbacks, of £31m (2001: £8m). In addition, the 2001 reinsurance premiums were reduced by £6m relating to premium rebates clawed back by reassurers but recoverable from external agents. For 2002 the movement on the recoverable amount of £12m has been categorised as a recovery of commission and so has reduced acquisition cost within 'Net operating expenses' by this amount (see note 7).

The result attributable to shareholders arising from the aggregate of all reinsurance balances in the long-term business technical account for the period ended 31 December 2002 was a debit balance of £768m (2001: £36m debit balance).

4. Investment return

	Technical account Full Year 2002	Non-technical account Full Year 2002	Technical account Period ended 31 Dec 2001	Non-technical account Period ended 31 Dec 2001
	£m	£m	£m	£m
Income from land and buildings	98	—	49	—
Income from group undertakings	21	—	12	—
Income from other investments	761	4	368	—
Gains on the realisation of investments	9	—	—	—
Investment income	889	4	429	—
Unrealised losses on investments	(2,366)	(14)	(397)	(21)
Investment expenses and charges				
Interest on bank loans	(3)	—	(8)	—
Interest on other loans	(25)	—	(12)	—
Losses on the realisation of investments	—	(51)	(137)	—
Investment management expenses	(28)	—	(17)	—
Investment expenses and charges	(56)	(51)	(174)	—
Total investment return	(1,533)	(61)	(142)	(21)

5. Other technical income

	Full Year 2002	Period ended 31 Dec 2001
	£m	£m
Proceeds on sale of shares on behalf of occupational pension scheme trustees	—	191
Unit management charges	24	—
	24	191

There are normally legal restrictions on the holding of shares by occupational pension scheme trustees. Consequently, upon demutualisation in 2001, shares were sold in the Institutional Offer and the proceeds on sale credited to other technical income. The cash has been applied to enhance benefits under the policies. The enhancements have increased the long-term business provision for the period.

Unit management charges are management charges recoverable from other group companies.

6. OTHER TECHNICAL CHARGES

Other technical charges in the technical account comprises:

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Amortisation of present value of acquired in-force contracts	17	1
Amortisation of licence	2	—
	19	1

7. Net operating expenses

Net operating expenses in the technical account comprise:

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Acquisition costs	151	83
Administrative expenses	130	35
Change in deferred acquisition costs	(220)	2
Net operating expenses	61	120

Auditors' remuneration amounted to £180,000 (2001: £145,000) for audit services and £137,000 (2001: £248,000) for non-audit services. Non-audit services comprise secondment of actuarial resource (in respect of unfilled vacancy) and ad hoc accounting, actuarial and tax advice.

Total commissions for direct insurance accounted for by the company during the year, excluding payments to employees of Friends Provident Management Services Limited, amounted to £121m (2001: £55m).

The 2002 commission for direct insurance and acquisition cost lines are reduced by an amount of £12m relating to the recognition of recoverable amounts relating to premium rebates clawed back by reassurers but recoverable from external agents. In 2001 the movement on the recoverable amount of £6m was netted off against reassurance premiums (see note 3).

8. Other charges

Other charges comprise integration expenses of £1.7m relating to the acquisition of Royal & SunAlliance International Financial Services Limited, since renamed "Friends Provident International Limited".

9. Taxation

Profit and loss account

United Kingdom and overseas taxation has been charged in the profit and loss account on assessable profits and income on the bases and rates appropriate to the various classes of business.

(a) Tax charged to the long-term business technical account and non-technical account comprises:

	Technical Account		Non Technical Account	
	Full Year 2002	**Period ended 31 Dec 2001**	**Full year 2002**	**Period ended 31 Dec 2001**
	£m	*£m*	*£m*	*£m*
Current Taxation				
United Kingdom corporation tax (30%)	71	—	—	—
Deferred tax	(103)	(29)	—	—
	(32)	(29)	—	—
Overseas taxation	2	1	—	—
Tax credit attributable to balance on the long-term business technical account	—	—	20	(11)
Total current taxation	(30)	(28)	20	(11)
Deferred taxation				
Origination and reversal of timing differences ..	(115)	(52)	—	—
Effect of discount	12	23	—	—
Total deferred taxation	(103)	(29)	—	—

(b) Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).

The differences are explained below.

	Full Year 2002	**Period ended 31 Dec 2001**
	£m	*£m*
Profit/(Loss) on ordinary activities before tax	4	(56)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%..	1	(17)
Effects of:		
Deductions not allowable for tax purposes	5	6
Tax losses not utilized	14	—
	20	(11)

(c) Factors that may affect future tax charges

The deferred tax assets which have not been recognised due to the uncertainty of the recoverabilities in the foreseeable future comprise:

	Technical Account		Non Technical Account	
	2002	2001	2002	2001
	£m	£m	£m	£m
Unrealised losses on investments	15	—	12	—
Realised losses on investments	43	—	18	—
	58	—	30	—

The unprovided deferred tax assets will be recoverable in the event of a significant increase in equity values above the values as at 31 December 2002.

(d) Balance Sheet

Deferred taxation

	£m
At 1 January 2002	103
Effect of discounting	19
Change in year	(122)
At 31 December 2002	—

Deferred taxation

Details of the liability for deferred taxation are given below:

	2002	2001
	£m	£m
Revaluation of investments	—	115
Deferred acquisition costs	—	(12)
Discounted provision for deferred taxation	—	103
Impact of discounting on deferred taxation	—	19

Deferred taxation on chargeable losses relating to the net unrealised depreciation of investments within linked funds, including that relating to the deemed disposal of unit trusts, is taken into account in the calculation of technical provisions for linked liabilities and is therefore excluded from the above analysis.

10. Dividend

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Interim dividend 53p per share (2001: Nil)	90	—
Proposed Final dividend 38p per share (2001: 250p)	250	50
	340	50

11. Intangible assets

Licence

	2002
	£m
Cost	
At 1 January 2002	—
Acquisition	18
At 31 December 2002	18
Amortisation	
At 1 January 2002	—
Charge for the period	2
At 31 December 2002	2
Net book value	
At 31 December 2002	16

The licence relates to an exclusive distribution agreement secured with Countrywide Assured Group plc in August 2002. The agreement gives a 15 year exclusive right to distribute mortgage related protection products through Countrywide's 700 estate agency branches and its 650 licensed consultants.

12. Investments

	2002		2001	
	Current Value	Cost	Current Value	Cost
	£m	*£m*	*£m*	*£m*
Land and buildings				
Owner Occupied				
Freehold..	34	57	35	57
Long leasehold	2	4	2	4
Other				
Freehold..	1,170	1,006	1,199	1,047
Long leasehold	143	105	115	82
Total land and buildings	1,349	1,172	1,351	1,190
Other financial investments				
Shares and other variable yield securities units in unit trusts	5,143	5,582	8,308	6,766
Debt and other fixed income Securities	9,384	8,903	8,028	7,900
Participation in investment pools	90	81	87	74
Loans secured by mortgages	3	3	25	25
Deposits with credit institutions	761	761	586	586
Other	292	212	242	242
	15,673	15,542	17,276	15,593
Assets held to cover linked liabilities	1,813	1,993	2,395	2,004

Listed investments included within the current value of other financial investments shown above comprise:

	2002	2001
	£m	*£m*
Shares and other variable yield securities	5,125	8,304
Debt securities and other fixed income securities	9,376	8,028
	14,501	16,332

Other investments comprise derivative contracts to hedge amounts in the long-term business provision.

During the last 12 months, all properties have been valued by a qualified valuer, approximately 80% by value by independent valuers, principally DTZ Debenham Tie Leung and Insignia Richard Ellis, who are both Chartered Surveyors, and 20% by value by Chartered Surveyors who are employees of the Group.

13. Investments in group undertakings and participating interests

	Shares in group undertakings 2002	Loans to group undertakings 2002	Total 2002
	£m	*£m*	*£m*
Current value			
At 1 January 2002	1,131	335	1,466
Additions	126	180	306
Disposals	(35)	(47)	(82)
Revaluations	(169)	(15)	(184)
At 31 December 2002	1,053	453	1,506
Cost			
1 January 2002			739
At 31 December 2002			822

On 5 August 2002, the company completed a transaction whereby it acquired Royal & SunAlliance International Financial Services Limited ("R&SAIFS"), since renamed "Friends Provident International Limited", the Isle of Man based offshore life insurance operation of the R&SA Group, and Royal & SunAlliance Investment Management Luxemburg SA ("R&SAIML") for a consideration of £126m.

Principal subsidiary undertakings of the company at 31 December 2002 are shown below. Except where stated, each of these were wholly owned and incorporated in England and Wales.

Shareholder subsidiaries	
Friends Provident Pensions Limited	100%
Friends Provident International Limited[(a)]	100%
Royal & Sun Alliance Investment Management Luxembourg SA[(b)]	100%
Subsidiaries held in the long-term funds	
Friends Provident Investment Holdings Limited	100%
FP Business Holdings Limited	100%*
FP Group Limited	100%
FP Life Assurance Limited	100%*
Friends' Provident Services Limited	100%*
FP Finance Plc	
London Capital Holdings Limited	
Ordinary shares – Direct Holding	65%
– Indirect Holding	35%*
Deferred shares – Direct Holding	84%
– Indirect Holding	16%*

* held by subsidiary

(a) Name changed from Royal & SunAlliance International Financial Services Limited on 15 August 2002, an Isle of Man registered company.

(b) Registered in Luxembourg.

Group accounts are not presented as the company is a wholly owned subsidiary of Friends Provident plc. Accordingly, the accounts present information about the company as an individual entity and not about its group.

14. Present value of acquired in-force business

	2002
	£m
Cost	
At 1 January 2002	72
At 31 December 2002	72
Amortisation	
At 1 January 2002	(9)
Amortisation during year	(17)
At 31 December 2002	(26)
Net book value	
At 1 January 2002	63
At 31 December 2002	46

15. Assets attributable to the long-term fund

Of the amount of total assets shown on the balance sheet on page 11, £22,515m (2001 £26,012m) is attributable to the long-term business fund of which the reinsurers' share is £3,040m (2001 £4,003m).

16. Other debtors

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Amounts falling due within one year:		
Investment income receivable	14	14
Investments sold for subsequent settlement	16	1
Amounts due from group undertakings	32	52
Other debtors	9	23
	71	90

17. Called-up share capital

	Full Year 2002	Period ended 31 Dec 2001
	£m	*£m*
Authorised		
1,000 million Ordinary shares of £1 each	1,000	1,000
Allotted and fully paid:		
Ordinary shares of £1 each	654	20

During the year, ordinary shares of £1 each were issued for cash by the company as follows:

	Number of Shares	Aggregate nominal	Total proceeds value
	million	*£m*	*£m*
On 28th June 2002	150	150	150
On 12th December 2002	284	284	284
On 31st December 2002	200	200	200
At 1st January 2002	634	634	634
At 31st December 2002	20	20	741
	654	654	1,375

18. Statement of movements on reserves

	Share capital	Share premium	Profit and loss	Total
	£m	*£m*	*£m*	*£m*
At 1 January 2002	20	721	674	1,415
Retained loss for the period	—	—	(356)	(356)
Shares issued during the year	634	—	—	634
At 31 December 2002	654	721	318	1,693

The distributable reserves of the company at 31 December 2002 amounted to £43m.

19. Subordinated liabilities

On 18 November 1996 FP Finance PLC, then a wholly owned subsidiary of Friends' Provident Life Office ("FPLO"), issued £215m of 9.125% Undated Subordinated Guaranteed Bonds, guaranteed by FPLO. Redemption is at the option of FP Finance PLC and is not generally allowable prior to 25 November 2006. The Bonds were guaranteed on a subordinated basis by FPLO after the claims of

FPLO's senior creditors including all policyholder liabilities. On 9 July 2001, under the Scheme, FPLP replaced FPLO as the guarantor. The market value of the bonds at 31 December 2002 was £227m (2001: £225m).

20. Policyholder liabilities

	Long-term business provision	Technical provisions for linked liabilities
	£m	*£m*
At 1 January 2002		
Gross	18,533	5,196
Reinsurance	(1,201)	(2,801)
Net	17,332	2,395
Movement in period		
Gross	(1,136)	(871)
Reinsurance	674	289
Net	(462)	(582)
At 31 December 2002		
Gross	17,397	4,325
Reinsurance	(527)	(2,512)
Net	16,870	1,813

On 9 July 2001, the company entered into a stoploss financial reinsurance contract with a number of leading reinsurers. The amount of reinsurance cover at 31 December 2002 was £530m (2001: £600m).

Included within the reinsurers' share of long-term business provision of £1,201m for 2001 was an amount of £702m, representing the estimated amount recoverable in the event of a claim under the stoploss contract including the recovery of £400m of future premiums payable over the life time of the contract. As the contract only pays out in the event of the company having failed to generate sufficient future surpluses to meet its final life policy claim payments, deferred acquisition costs, which are deferred only to the extent that they are recoverable out of future margins, to the value of £302m, were not recognised in the company balance sheet for 2001.

In 2002, no amount is included within the reinsurers' share of long-term business provision in respect of the stoploss contract. Accordingly, deferred acquisition costs have been recognised in full in the company's balance sheet. This change in presentation has no effect on the fund for future appropriations.

21. Long-term business provision

The long-term business provision is calculated on the basis of recognised actuarial methods with due regard to actuarial principles and best practice. The methodology takes into account risks and uncertainties of the particular classes of long-term business written and the results are certified by the professionals undertaking the valuations.

Calculations are made on an individual policy basis, however where any global provisions are made these are calculated using statistical or mathematical methods. These results are expected to be approximately the same as if an individual liability was calculated for each long-term contract.

Specific material uncertainties arise in respect of guaranteed annuity options, where the option will only be of value to the policyholder if the economic conditions assumed exist at the time of retirement.

The long-term business provision is sensitive to the principal assumptions in respect of interest rates and mortality, although the relative sensitivity will vary depending on the class of long-term business.

The principal assumptions underlying the calculation of the long-term business provision are set out below:

	Valuation 31 Dec 2002	Interest Rates 31 Dec 2001
	%	%
Class of Business		
Life fund:		
– Conventional With Profit	3.4	2.7
– Unitised With Profit	3.2	3.3
– Unit linked	3.2	3.5
– Term assurance	3.2	3.5
Income Protection	4.0	4.8
funds:		
– With Profit deferred annuities for the self-employed	4.3	3.3
– Deferred annuity under pension schemes:		
– With Profit main series	3.9	4.0
– With Profit UK Provident Series	4.3	3.3
– Unitised With Profit	3.9	4.0
Annuities in payment	4.8	5.2

The valuation interest rates for some classes of With Profit business for which there is no longer any net reinvestment have been set having regard to the yield on the backing assets.

Cashable deferred annuities are valued at the greater of the value of the cash option or the annuity discounted at 4.4% (2001: 4.5%) per annum in payment. Where a guaranteed annuity option is more valuable than the cash equivalent it is assumed that 15% to 23% of the benefit is taken as tax free cash.

Single premium income protection contracts have been valued as 90% of the last three years' premiums plus an allowance for outstanding claims in respect of earlier premiums.

The provision for linked contracts is equal to the value of units. A non-unit liability consisting mainly of a sterling reserve calculated by carrying out cash flow projections on appropriate basis, including allowance for future expenses, is included within the long-term business provision.

Accumulating With Profit business (main series With Profit deferred annuities and unitised With Profit business) was valued in a similar way to linked business and includes an allowance for future bonus and surrender values.

Allowance for future mortality and sickness has been made using standard published tables:

	2002 In deferment	2002 In payment	2001 In deferment	2001 In payment
Term assurances(i)	75% TM92/80% TF92	—	80% TM/F80	
Life assurances	80% AM/F80	—	80% AM/F80	—
Unitised policies	80% AM/F80	—	80% AM/F80	—
Individual deferred annuities	35% AM/F80	80% RM/FV92C2001 (ii)	50% AM/F80	80%RM/FV92C2025
Group deferred annuities	35%AM/F80	95% PM/FA92C2001 (ii)	50% AM/F80	95%RM/FA92C2025
Individual annuities in payment	—	80% RM/FV92U2003 (iii)	—	80%RM/FV92U2002
Group annuities in payment	—	95% PM/FA92U2003 (iii)	—	95%PM/FA92U2002

(i) Aggregate rates. Smokers and non-smokers are assumed to have higher and lower mortality respectively.

(ii) Projected using CMI short cohort per annum improvement factors from 2001

(iii) Plus additional 0.5% per annum from 2003 onwards for males only.

Income protection sickness experience is based on recent experience with a 10% margin for recoveries and a 19% margin for inceptions.

The total cost of reversionary, interim and terminal bonuses attributable for the period ended 31 December 2002 was £535m (2001: £532m).

22. Provisions for other risks and charges

	£m
Vacant properties	
At 1 January 2002	8
Charge in year	3
Utilised in year	(2)
At 31 December 2002	9
Deferred taxation	
At 1 January 2002	103
Effect of discounting	—
Charge in year	(103)
At 31 December 2002	—
Endowment complaints	
At 1 January 2002	4
Charge in year	28
Utilised in year	(1)
At 31 December 2002	31

	£m
Other	
At 1 January 2002	3
Recategorisation to debtors arising out of direct insurance operations – intermediaries	18
Charge in year	4
Utilised in year	(1)
At 31 December 2002	24
Total at 1 January 2002	118
Total at 31 December 2002	64

Vacant properties

The company holds leases for a number of vacant and sub-let properties previously occupied by the Group. Provision has been made for the residual lease commitments and for other outgoings where significant, after taking account of existing and expected sub-tenant arrangements. The remaining terms of the leases are up to 12 years.

Assumptions as to whether each leasehold property may be sub-let or assigned in the future have been made. The discount rate applied to expected future cash flows is 5%.

Other

The recategorisation to debtors arising out of insurance operations – Intermediaries, relates to the recategorisation of an amount recoverable from intermediaries of £18m (2001: £6m). The recoverable amount in 2001 was set off against, and therefore reduced, the related provision for the repayment of premium rebates to reinsurers included within other provisions.

23. Amounts owed to credit institutions

	Full Year 2002	Period ended 31 December 2001
	£m	£m
Bank overdrafts	12	82
Margin loans repayable within one year	—	277
	12	359

The margin loans are in respect of derivatives held to back guaranteed retail products and bear interest at a variable rate linked to LIBOR.

Total borrowings, including subordinated liabilities, are repayable as follows:

	Full Year 2002	Period ended 31 December 2001
Within one year or on demand	12	359
Between two and five years	215	215
	227	574

24. Other creditors including taxation and social security

	Full Year 2002	Period ended 31 December 2001
	£m	*£m*
Amounts falling due within one year:		
Proposed dividend	250	50
Taxation	78	69
Amount due to group undertakings	200	206
Other creditors	76	22
	604	347

25. Financial commitments

(a) Capital expenditure for which provision has not been made in the financial statements is estimated as follows.

	2002 Property	2002 Other	2001 Property	2001 Other
	£m	*£m*	*£m*	*£m*
Contracted for	1.3	—	1.6	—

(b) Annual commitments under non-cancellable operating leases for which no provision had been made in the financial statements, were as follows:

	2002 Land and buildings *£m*	2002 Other *£m*	2001 Land and buildings *£m*	2001 Other *£m*
Operating leases which expire:				
within one year	—	—	—	—
in the second to fifth years inclusive	—	—	—	—
in over five years	1.6	—	1.6	—

26. Loan note guarantee

At 31 December 2002 FP Business Holdings Limited ("FPBH"), a wholly owned indirect subsidiary, had £14,027,170 of loan notes in issue which are fully paid and are guaranteed by the company. The Loan Notes are repayable at par in the year 2006 and may be redeemed at the holders' request on set dates in any year until 2006. FPBH may redeem the Loan Notes if 75 per cent, or more of the Loan Notes have been redeemed. The Loan Notes bear interest at a variable rate of 0.5 per cent. below the six month London Inter Bank Offer Rate.

27. Directors' emoluments

The emoluments of the directors in respect of their services to the company were:

All directors:

	Year ended 2002	Period ended 2001
	£000	*£000*
Management salaries and benefits in kind	1,235	593
Amounts receivable under annual bonus schemes	337	226
Amounts receivable under long term incentive schemes	578	—
	2,150	819

At 31 December 2002 retirement benefits were accruing to eleven directors under a defined benefit scheme and one director received retirement benefits under an unfunded unapproved pension arrangement.

Highest paid director:

The total of salaries, benefits in kind, results-related payments and amounts receivable under long-term incentive schemes payable to directors includes £463,000 (2001: £189,000) in respect of the highest paid director, of which £138,000 relates to long-term incentive schemes. Pension contributions to money purchase pension schemes include £Nil (2001: £Nil) for the highest paid director. The highest paid director is a member of a defined benefit pension scheme, under which the total accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end was £195,000 (2001: £172,000).

28. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary undertaking of Friends Provident plc. The results of both the company and its subsidiaries are consolidated in the results of Friends Provident plc, the company's ultimate parent and controlling company, whose financial statements are publicly available. Accordingly, the company is exempt from the requirements of Financial Reporting Standard No. 8 concerning the disclosure of transactions with other companies which qualify as related parties within the Friends Provident Group.

Key management, which includes their close family and undertakings controlled by them, had various transactions with the company during the year. Key management consists of all directors and executive management of the company.

Payments during the period by key management in respect of policies and investments issued or managed by the company:

	Full Year 2002	Period ended 31 Dec 2001
	£000	*£000*
Periodic payments	148	85
Single payments	105	46
Payments by the company	72	40

All these transactions were completed on terms which were no better than those available to staff.

29. Provision for pension transfers and opt-outs

These reviews have now been substantially completed. £47m remains within the long-term business provision in respect of residual associated costs and contingencies.

30. Contingent liabilities

Market falls during 2002 have led to a considerable increase in the number of complaints received by the industry in respect of endowment policies. All such complaints received by the company, and an estimate of complaints not yet received, have been provided for at an estimate of the likely cost of selling such complaints. Future regulatory actions or statements could increase the estimated costs. The impact of such potential future actions cannot be estimated with reliability.

Provision for liabilities in connection with policyholder contracts are based on best estimate assumptions, using historical experience but adjusted where there is reasonable cause to expect future experience to be different. However, actual experience may differ from that assumed. Regulatory action, legal judgments, future economic conditions or other unforeseen events may impact ultimate settlements made.

On 23 December 2002 the Inland Revenue issued a press release announcing measures to improve the effectiveness and fairness of the tax rules for life insurance companies. The draft clause and schedule to be included in the Finance Bill 2003 was issued on 21 January 2003.

The Inland Revenue proposals as finally enacted may have an impact on the company. However, as discussions are continuing between the Inland Revenue and the Industry on the measures proposed, there remains uncertainty over the nature and extent of the measures. As a consequence, the directors are unable to quantify the corporation tax impact on the company.

31. Ultimate parent undertaking

The company's ultimate parent undertaking is Friends Provident plc which is incorporated in the United Kingdom. Copies of the Group Annual Report and Accounts of Friends Provident plc can be obtained by writing to its Secretary at Pixham End, Dorking, Surrey, RH4 1QA and can be viewed via its website at www.friendsprovident.com.

PART 10: TAXATION

The comments below are of a general nature and should be treated with appropriate caution. They are based on our understanding of current United Kingdom law and practice relating to the withholding or deduction for or on account of United Kingdom income tax from interest on the STICS. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of STICS and they relate only to the position of persons who are the absolute beneficial owners of the STICS and may not apply to certain classes of such owners, such as those carrying on a business of dealing. **Holders who are in any doubt as to their tax position or who may be liable to taxation in jurisdictions other than the United Kingdom should consult their professional advisers.**

Holders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the STICS are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the STICS. In particular, Holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the STICS even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax on UK Source Interest

Payments of interest made in respect of the STICS may be made without withholding or deduction for or on account of United Kingdom income tax as long as the STICS are and remain at all times listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988. The London Stock Exchange is a recognised stock exchange for these purposes. In other cases, except where certain exemptions apply, an amount may be withheld on account of United Kingdom income tax at the lower rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double tax treaty.

Payments by the Guarantor

If the Guarantor makes any payments in respect of interest on the STICS (or other amounts due under the STICS other than the repayment of amounts subscribed for the STICS) there is a risk that such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22%) subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by the Guarantor may not be eligible for the exemption for securities listed on a Recognised Stock Exchange as described above.

Provision of Information

Holders should note that where any interest on STICS is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Holder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Holder (including the Holder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Holder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Holder is resident for taxation purposes.

For the above purposes, "interest" should be taken, for practical purposes, as including payments made by the Guarantor in respect of interest on the STICS.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any STICS where the amount payable on redemption is greater than the issue price of the STICS.

Other Rules Relating to United Kingdom Withholding Tax

1. STICS may be issued at an issue price of less than 100% of their principal amount. Any discount element on any such STICS will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined above.
2. Where STICS are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.
3. Where interest has been paid under deduction of United Kingdom income tax, 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 any applicable double taxation treaty.
4. The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the STICS or any related documentation.
5. The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

EU Savings Directive

On 3rd June, 2003, the European Council of Economic and Finance Ministers ("ECOFIN") adopted a new directive under which each Member State will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. (The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.)

The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date.

PART 11: SUBSCRIPTION AND SALE

Under a subscription agreement entered into with the Issuer and the Guarantor on 20 November 2003 (the "Subscription Agreement"), Merrill Lynch International, Barclays Bank PLC and HSBC Bank plc (the "Managers") have agreed to subscribe and procure subscribers for the STICS at the issue price of 99.952 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a commission in respect of underwriting services of 1 per cent. of the principal amount of the STICS. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Issuer.

United States of America

The STICS have not been and will not be registered under the U.S. 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, U.S. 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.

The STICS are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. 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 STICS (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, U.S. persons, and that it will have sent to each dealer to which it sells STICS during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of STICS within the United States or to, or for the account or benefit of, U.S. persons.

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

United Kingdom

Each of the Managers has represented and agreed that:

(i) it has not offered or sold and, prior to admission of the securities to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "FSMA"), will not offer or sell any STICS 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, as amended, or the FSMA;

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the STICS in, from or otherwise involving the United Kingdom; and

(iii) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any STICS in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

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 STICS, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the STICS, in any country or jurisdiction where action for that purpose is required Each Manager has agreed to comply, to the best of its knowledge and belief, with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers STICS or has in its possession or distributed this Offering Circular or any such other material relating to the STICS, in all cases at its own expense.

PART 12: GENERAL INFORMATION

1. The issue of the STICS was duly authorised by a resolution of the Board of Directors of the Issuer dated 23 October 2003 and a resolution of a committee of the Board of Directors of the Issuer dated 4 November 2003 and the giving of the Guarantee was authorised pursuant to a resolution of the Board of Directors of the Guarantor passed on 22 October 2003.
2. The listing of the STICS on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that official listing will be granted on or about 24 November 2003 subject only to issue of the Temporary Global STICS. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.
3. The STICS have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 018116138. The ISIN for the STICS is XS0181161380.
4. Copies of the following documents will be available for 14 days from the date of this Offering Circular during normal business hours from the offices of Herbert Smith of Exchange House, Primrose Street, London EC2A 2HS:
   (i) the Memorandum and Articles of Association of the Issuer;
   (ii) the Memorandum and Articles of Association of the Guarantor;
   (iii) the audited consolidated and non consolidated financial statements of the Issuer for the period ended 31 December 2001 and the year ended 31 December 2002 and the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2003;
   (iv) the audited non consolidated financial statements of the Guarantor for the period ended 31 December 2001 and the year ended 31 December 2002;
   (v) the Subscription Agreement; and
   (vi) the Trust Deed (which contains the form of the STICS), the Agency Agreement and the Calculation Agency Agreement in draft form and following the Closing Date in final form.
5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2003 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2002.
6. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Guarantor and its consolidated subsidiaries since 31 December 2002, and there has been no material adverse change in the financial position or prospects of the Guarantor and its consolidated subsidiaries since 31 December 2002.
7. There are no, nor has there been any, legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer or the Guarantor is aware, which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position of the Issuer, the Guarantor and its consolidated subsidiaries or the Group.
8. The consolidated and unconsolidated financial statements of the Issuer, and the unconsolidated financial statements of the Guarantor have been audited without qualification by PricewaterhouseCoopers, chartered accountants and registered auditors for the year ended 31 December 2001, and by PricewaterhouseCoopers LLP for the year ended 31 December 2002. PricewaterhouseCoopers LLP has given, and has not withdrawn, its consent to the inclusion of its report in this Offering Circular in the form and context in which it is included and has authorised the contents of that part of the Offering Circular for the purposes of regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 (as amended). PricewaterhouseCoopers LLP's audit report on the accounts of the Guarantor for the year ended 31 December 2002 provides that this report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. PricewaterhouseCoopers LLP do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

9. The Trust Deed will provide that any certificate or report called for by, or provided by, the Auditors (as defined in the Trust Deed) or any other expert in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein, notwithstanding that any such certificate or report and/or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains a monetary or other limit on the liability of the Auditors or such other expert.

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