



## Scottish Mutual Assurance plc

*(incorporated in Scotland with limited liability,  
registered number 133846)*

**£200,000,000**

**7.25 per cent. Undated Subordinated Notes**

**Issue Price: 99.259 per cent.**

Interest on the £200,000,000 7.25 per cent. Undated Subordinated Notes (the "Notes") of Scottish Mutual Assurance plc (the "Issuer") is payable from and including 23 July 2001 at the rate of 7.25 per cent. per annum, in sterling, annually in arrear on 25 March in each year (each an "Interest Payment Date"), the first such payment to be made on 25 March 2002 in respect of the period from and including, 23 July 2001 up to, but excluding, 25 March 2002 in the amount of £48.66 for each Note of £1,000 principal amount, £486.64 for each Note of £10,000 principal amount and £4,866.44 for each Note of £100,000 principal amount. Payments in respect of the Notes will be made without deduction for or on account of taxes of the United Kingdom as described under "Terms and Conditions – 8. Taxation".

Subject to the prior consent of the Financial Services Authority (so long as the same is required), the Issuer may redeem the Notes in whole at their principal amount, together with accrued interest and Arrears of Interest (if any) (i) on 25 March 2021 and on each fifth anniversary thereafter (each a "Reset Date") or (ii) at any time if the Issuer is required to pay additional amounts in respect of United Kingdom taxation as described under "Terms and Conditions – 5. Redemption and Purchase".

If the Issuer does not redeem the Notes on a Reset Date, the rate of interest on the Notes for the period from and including such Reset Date to but excluding the next following Reset Date will be reset as described under "Terms and Conditions – 3. Interest".

The Notes constitute subordinated obligations of the Issuer, as described under "Terms and Conditions – 2. Status and Subordination".

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

The Notes are expected to be assigned, on issue, a rating of A by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. and a rating of A2 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.

The Notes will initially be represented by a temporary global note in bearer form (the "Temporary Global Note"), without interest coupons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 23 July 2001 (the "Closing Date"). The Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (the "Permanent Global Note"), without interest coupons, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes only in limited circumstances, as described under "Terms and Conditions – 1. Form, Denomination and Transfer".

**Barclays Capital**

*David Wall 20/7/2001*





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**Barclays Capital**

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

In this Offering Circular, references to "Scottish Mutual Assurance", the "Company" and the "Issuer" are to Scottish Mutual Assurance plc.

No dealer, salesman or other person is authorised to give any information or to make any representations other than those contained in this Offering Circular in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Manager (as defined under "Subscription and Sale" below). Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Manager to subscribe for or purchase, any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offering and sales of Notes and on the distribution of this Offering Circular, see "Subscription and Sale" below.

Neither the Issuer nor the Manager represents that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Manager which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Manager has represented that all offers and sales by it will be made on such terms.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to United States persons.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "pounds", "sterling" and "£" are to the lawful currency from time to time of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom" or the "UK").

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

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## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form in which they will appear in the Trust Deed (as defined below).*

The £200,000,000 7.25 per cent. Undated Subordinated Notes (the "Notes", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) are constituted by a trust deed (the "Trust Deed") dated 23 July 2001 between Scottish Mutual Assurance plc (the "Issuer") and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Notes (the "Noteholders"). The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 23 May 2001 and resolutions of a duly authorised committee of the Board of Directors passed on 11 July 2001. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the paying agency agreement (the "Paying Agency Agreement") dated 23 July 2001 made between the Issuer, The Bank of New York as principal paying agent (the "Principal Paying Agent") and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents") and the Trustee are available for inspection during normal business hours by the Noteholders and the holders of the interest coupons (the "Coupons") and talons for further Coupons (the "Talons") appertaining to Notes in definitive form (the "Couponholders") at the registered office of the Trustee, being at the date hereof at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Paying Agency Agreement applicable to them.

### 1. Form, Denomination and Transfer

- (a) The Notes are in bearer form in the denomination of £1,000, £10,000 and £100,000, serially numbered.
- (b) The Notes are initially represented by a temporary global note (the "Temporary Global Note") in bearer form, without Coupons or Talons attached, in the principal amount of £200,000,000 deposited with a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on 23 July 2001. Not earlier than 2 September 2001, the Temporary Global Note is exchangeable for a further global note in bearer form, without Coupons or Talons attached, in the principal amount of up to £200,000,000 (the "Permanent Global Note"). Exchanges of interests in the Temporary Global Note for interests in the Permanent Global Note will be effected only upon certification as to non-U.S. beneficial ownership. A beneficial owner must exchange his interest in the Temporary Global Note for an interest in the Permanent Global Note before payments of principal or interest on the Notes can be collected. The Temporary Global Note and the Permanent Global Note are together referred to as the "Global Notes". The Permanent Global Note will only be exchangeable for definitive Notes in certain limited circumstances described in paragraph (e) below. Title to each Global Note will pass by delivery (without prejudice to paragraphs (c) and (d) below). The Issuer and the Trustee may (to the fullest extent permitted by applicable laws but without prejudice to paragraph (d) below) deem and treat the bearer of a Global Note as the absolute owner for all purposes (whether or not such Global Note shall be overdue and notwithstanding any notice of ownership or writing on such Global Note or any notice of previous loss or theft of such Global Note).
- (c) For so long as the Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate. Title to the definitive Notes issued in the limited circumstances described in paragraph (e) below, Coupons and Talons will pass by delivery.
- (d) For so long as the Notes are represented by a Global Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular

principal amount of Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of the Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the Issuer, the Trustee and the bearer of the relevant Global Note as a holder of such principal amount of Notes (and the expression "Noteholder" and references to "holding of Notes" and to "holders of Notes" shall be construed accordingly) for all purposes other than with respect to the payment of principal and interest on the Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Permanent Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Trustee.

- (e) If (i) any event described in paragraph (a) of Condition 7 occurs and is continuing, (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available or (iii) the Trustee is satisfied that on the occasion of the next payment in respect of the Notes the Issuer or any Paying Agent would be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form, then the Issuer will issue definitive Notes, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons and a Talon attached on issue (in exchange for the entire Permanent Global Note) within 45 days of the occurrence of the relevant event in (i), (ii) or (iii) above.

## 2. Status and Subordination

### (a) Status

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

### (b) Subordination

The Notes are direct liabilities of the Issuer. The Issuer's obligations under the Notes are to be met from, and shall be limited to, assets from time to time held outside the long-term fund of the Issuer, including any distribution of a surplus from the long-term fund under Section 30 of the Insurance Companies Act 1982 (the "Act").

In the event of a winding-up of the Issuer the claims of the Noteholders shall be subordinated in right of payment, in the manner provided in the Trust Deed, to the Claims of all Senior Creditors of the Issuer.

For the purposes of these Conditions:

"Claims" means all liabilities to Senior Creditors of the Issuer including the value of any amount determined by the court pursuant to paragraph 1(2) or paragraph 8 of Schedule 2 to the Insurance Companies (Winding-up) Rules 1985 to be due to a policyholder to reflect any right to receive or expectation of receiving benefits which that policyholder may have;

"Senior Creditors" means all creditors of the Issuer (including all policyholders of the Issuer) who are (i) unsubordinated creditors of the Issuer or (ii) subordinated creditors of the Issuer other than those whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders.

The Issuer's obligations under the Notes shall in any event not exceed the extent of its assets from time to time existing and, for this purpose, such assets exclude those from time to time representing the long-term fund of the Issuer. No member of the Issuer, and no other person who is at any time in any way interested in any policy of assurance and/or annuity which has been or shall hereafter be

effected with the Issuer, shall be liable to make any contribution, whether in any liquidation of the Issuer or otherwise howsoever, to satisfy any claim or demand under or in respect of the Notes, whether by the Trustee or by any Noteholder or by any other person for the time being interested in any Note.

Subject to applicable law, no Noteholder may exercise or claim any right of set-off, compensation, retention or balancing accounts in insolvency in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each Noteholder shall, by virtue of being the holder of any Note, be deemed to have waived all such rights of set-off, compensation, retention or balancing accounts in insolvency.

*On a winding-up of the Issuer there may be no surplus assets available to meet the claims of the Noteholders after the Claims of the Senior Creditors have been satisfied.*

### 3. Interest

#### (a) Rate of Interest

The Notes bear interest in accordance with the provisions of this Condition 3 and, subject to the provisions of Condition 4, from and including 23 July 2001 (the "Issue Date") and such interest will be payable annually in arrear on 25 March in each year (each an "Interest Payment Date") except that the first payment of interest to be made on 25 March 2002 will be in respect of the period from, and including, 23 July 2001 to, but excluding, 25 March 2002 and shall amount to £48.66 in respect of each Note in a principal amount of £1,000, £486.64 in respect of each Note in a principal amount of £10,000 and £4,866.44 in respect of each Note in a principal amount of £100,000. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days from and including the previous Interest Payment Date (or, if none, the Issue Date), to but excluding the next following Interest Payment Date.

#### (b) Interest Accrual

Interest will cease to accrue on the Notes on the first due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event interest will continue to accrue (as well after as before any judgment) as provided in the Trust Deed.

#### (c) Initial Rate of Interest

For the period from, and including, the Issue Date to, but excluding, 25 March 2021, the Notes bear interest at the rate of 7.25 per cent. per annum.

#### (d) Reset Rate of Interest

From and including 25 March 2021, the rate of interest payable in respect of each Interest Calculation Period (as defined below) (the "Reset Rate of Interest") will be the rate per annum which is the aggregate of 3.20 per cent. and the Gross Redemption Yield (as defined below) in respect of such Interest Calculation Period.

"Benchmark Gilt" means, in respect of an Interest Calculation Period, such United Kingdom government security having a maturity date on or about the last day of such Interest Calculation Period as a leading investment, merchant or commercial bank in London selected by the Issuer, approved in writing by the Trustee and acting as a calculation agent (the "Calculation Agent"), with the advice of the Reference Market Makers (as defined below), may determine to be appropriate. If after using its best endeavours to appoint a Calculation Agent, the Issuer is unable to do so, it shall itself perform the duties of the Calculation Agent as set out in these Conditions and determine the Reset Rate of Interest in accordance with this Condition 3, such determination shall be deemed to



be a determination thereof by the Calculation Agent and references to the Calculation Agent shall be construed accordingly.

"Determination Date" in relation to an Interest Calculation Period means the fifth London Business Day (being a day other than a Saturday or Sunday on which banks are open for business in London), prior to the first day of such Interest 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 London Business Day thereafter on which the Calculation Agent determines that it is possible to determine the Gross Redemption Yield, provided that such day occurs before the first day of such Interest Calculation Period. If such day falls on or after the first day of such Interest Calculation Period, that Determination Date shall instead be the London Business Day which is or, is nearest to but after, the first day of such Interest Calculation Period, and upon which the Calculation Agent determines that it is possible to determine the Gross Redemption Yield.

"Gross Redemption Yield" means, in respect of an Interest Calculation Period, the gross redemption yield (as calculated by the Calculation 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 8/6/1998) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places)) of the Benchmark Gilt in respect of that Interest 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 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.

"Interest Calculation Period" means each period commencing on (and including) a Reset Date (as defined in Condition 5(b)) and ending on (but excluding) the next succeeding Reset Date for so long as any Notes are outstanding (as defined in the Trust Deed).

"Reference Market Makers" means three brokers of gilts and/or gilt edged market makers selected by the Calculation Agent and approved for this purpose by the Trustee or such other three persons operating in the gilt edged market as are selected by the Calculation Agent and approved for this purpose by the Trustee in consultation with the Issuer.

*(e) Publication of Reset Rate of Interest*

The Issuer shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 3 to be given to the Trustee, the Paying Agents and the Luxembourg Stock Exchange and, in accordance with Condition 14, the Noteholders as soon as practicable after its determination but in any event not later than the first day of the relevant Interest Calculation Period (unless the Determination Date occurs after such date, in which case, not later than the fourth London Business Day after the Determination Date).

*(f) Determination or Calculation by Trustee*

The Trustee shall, if the Calculation Agent does not at any relevant time for any reason determine the Reset Rate of Interest in accordance with this Condition 3, determine interest in respect of the relevant Interest Calculation Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (d)), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Calculation Agent.

*(g) Determinations of Calculation Agent or Trustee Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3, whether by the Calculation Agent

or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Trustee, the Paying Agents and all Noteholders and (in the absence as aforesaid) no liability to the Noteholders or the Issuer shall attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

#### 4. Deferral of Payments

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

If, on any date on which a payment in respect of principal, interest or any other amount in respect of the Notes is, or would be, but for the provisions of this Condition 4(a), due, either:

- (i) the Issuer was not Solvent (as defined below) as at the relevant Valuation Date (as defined below); or
- (ii) the Issuer would not be Solvent immediately after such payment (assuming for this purpose that the Issuer's Solvency immediately prior to making such payment is as determined by its Appointed Actuary (as defined below) as at the relevant Valuation Date),

then such payment (or, in the case of sub-paragraph (ii) above, such part of such payment as would cause sub-paragraph (ii) to be applicable) shall not, subject as provided in paragraph (b) below, be made by the Issuer and shall not, subject as provided in paragraph (b) below, be due unless the Issuer shall have obtained Supervisory Consent (as defined below). Prior to the deferral of any payment of principal, interest or any other amount in respect of the Notes in accordance with the foregoing provisions of this Condition 4(a), the Board of Directors of the Issuer shall confirm the relevant determination as to Solvency in accordance with sub-paragraph (i) or, as the case may be, (ii) above, which confirmation shall be evidenced by a certificate issued by an officer of the Issuer who is duly authorised to provide such a certificate by a resolution passed by the Board of Directors of the Issuer.

The Issuer shall notify the Trustee and the Noteholders as soon as practicable (and in any event within 10 days) after any due date for payment in respect of which payment of principal, interest or any other amount in respect of the Notes is deferred of the amount of such principal, interest or other amount due on that date, payment of which is deferred in accordance with this Condition 4(a).

##### (b) *Arrears of Interest*

Any interest in respect of the Notes not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any earlier Interest Payment Date, in each case by virtue of Condition 4(a), shall, so long as the same remains unpaid, constitute "Arrears of Interest". Any Arrears of Interest and any other amount, payment of which is deferred in accordance with Condition 4(a), will automatically become immediately due and payable (without Supervisory Consent) (in full, or in the case of sub-paragraph (i) below, in the relevant part) upon the earliest of:

- (i) the Appointed Actuary determining that the Issuer would be Solvent after payment of all or any part of the Arrears of Interest or other amount is made;
- (ii) the date fixed for any redemption or purchase of Notes by the Issuer or any of its Subsidiaries (as defined in the Trust Deed) pursuant to Condition 5(b), (c) or (d) (but subject to Condition 4(a)) or the date on which the Notes become due and payable pursuant to Condition 7(a); and
- (iii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up in relation to which the Trustee has given its prior approval in writing or which has been approved by an Extraordinary Resolution of the Noteholders).

(c) *No Default*

Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Condition 4(a) shall not constitute a default for any purpose (including, but without limitation, Condition 7(a)) on the part of the Issuer. Arrears of Interest and any other amount, payment of which is so deferred, shall not themselves bear interest.

(d) *Investigations as to Solvency*

The Issuer shall procure that an investigation of the Issuer complying with Section 18 of the Act is made by the Appointed Actuary as at the end of each of the Issuer's financial years and that an abstract of the Appointed Actuary's report of that investigation is deposited with the Financial Services Authority in accordance with Section 22 of the Act. Such investigation shall be made as soon as reasonably practicable after the end of each financial year. However, if the Issuer proposes to defer payment of interest due on the Interest Payment Date falling in the next following financial year, the relevant abstract shall be deposited with the Financial Services Authority on or before such Interest Payment Date.

(e) *Definitions*

As used in these Conditions:

"Appointed Actuary" means the person appointed to be the actuary of the Issuer from time to time pursuant to Section 19 of the Act;

the Issuer is "Solvent" if it satisfies the required minimum margin of solvency required of it under the Act and for this purpose the required minimum margin of solvency shall be calculated in the manner presently required for line 41 of Form 9 of the annual returns required to be delivered to the Financial Services Authority pursuant to the Act. The Issuer shall have satisfied this requirement if the figure resulting from the calculation described above and set out in line 44 of Form 9 exceeds zero (and "Solvency" shall be construed accordingly);

"Supervisory Consent" means the consent of the Financial Services Authority (or, if, at any time, the Financial Services Authority is not the relevant regulator, such other regulator as shall be the relevant regulator of insurance companies operating in the United Kingdom) to the relevant redemption, payment, repayment, purchase, amendment or modification; and

"Valuation Date" means, in respect of any date (the "Payment Date") on which a payment in respect of the Notes is, or would be, but for the provisions of this Condition 4, due:

- (i) the last day of the Issuer's most recent financial year; or
- (ii) such later date, if any, falling on or before the Payment Date (as defined in this Condition 4(e)) (or, if more than one such later date, the latest thereof) as at which an investigation of the Issuer complying with Section 18 of the Act has been conducted by the Appointed Actuary.

**5. Redemption and Purchase**

(a) *No Fixed Maturity*

There is no fixed redemption date for the Notes and the Issuer shall (subject to the provisions of Conditions 2 and 4 and without prejudice to the provisions of Condition 7) only have the obligation to repay them in accordance with the following provisions of this Condition 5. In these Conditions all references to redemption or purchase of the Notes shall be read subject to the requirement that any such redemption or purchase shall be subject to prior Supervisory Consent (so long as such consent is required).

*(b) Optional Redemption on or after 25 March 2021*

Unless the Issuer shall have given notice to redeem the Notes under Condition 5(c) on or prior to the expiration of the notice referred to below, the Issuer may at its option, having obtained Supervisory Consent (so long as such consent is required) and having given not less than 45 nor more than 60 days' notice to the Trustee and to the Noteholders (which notice shall be irrevocable) in accordance with Condition 14 expiring on the relevant Reset Date (as defined below), on 25 March 2021 or on each fifth anniversary thereafter for so long as any Notes are outstanding (each such date a "Reset Date") redeem all, but not some only, of the Notes at their principal amount, together with interest accrued to, but excluding, the redemption date and all Arrears of Interest.

*(c) Redemption for taxation reasons*

If the Issuer satisfies the Trustee at any time immediately before the giving of the notice referred to below that:

- (i) on the occasion of the next payment due in respect of the Notes either the Issuer would be required to pay additional amounts as provided or referred to in Condition 8; or
- (ii) on the next Interest Payment Date the payment of interest in respect of the Notes would be treated, for reasons outside the control of the Issuer, as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced),

the Issuer may, at its option, having obtained Supervisory Consent (so long as such consent is required) and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Notes, at their principal amount together with interest accrued to, but excluding, the date of redemption and all Arrears of Interest.

*(d) Purchases*

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) for the time being may having obtained Supervisory Consent (so long as such consent is required) and at any time purchase Notes in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons (if any) appertaining thereto.

*(e) Cancellation*

All Notes purchased pursuant to paragraph (d) above will be surrendered for cancellation to any Paying Agent and will be cancelled forthwith (together with all unmatured Coupons and Talons surrendered therewith) and may not be reissued or resold.

**6. Payments**

*(a) Method of Payment*

Payments of principal and interest in respect of the Notes will be made against surrender of Notes or, in the case of payments of interest, against surrender of the relevant Coupons at the specified office of any of the Paying Agents. Such payments will be made (subject to paragraph (b) below), at the option of the holder by sterling cheque drawn on, or by transfer to a sterling account maintained by the holder with, a bank in London, subject in all cases to any fiscal or other laws and regulations applicable in the place of payment but without prejudice to the provisions of Condition 8.

*(b) Effect of Redemption on unmatured Coupons and unexchanged Talons*

Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons (other than Coupons in respect of which there exist any Arrears of

Interest) relating to such Note (whether or not attached) shall also become void and no payment shall be made in respect of them. Where any Note is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

*(c) Surrender of Talons*

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or at the specified office of the Paying Agent in Luxembourg 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 9).

*(d) Payment on business days*

If the date for payment of any amount of principal or interest in respect of any Note or any later date on which any Note or Coupon is presented for payment is not at any place of payment a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 6(d), "business day" means any day (not being a Saturday or Sunday) on which, in the relevant place of payment and in London, commercial banks and foreign exchange markets settle payments in sterling.

*(e) Paying Agents*

The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the 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 (i) a Paying Agent having a specified office in London, (ii) for so long as the Notes are listed on the Luxembourg Stock Exchange and the Rules of that Stock Exchange so require, a Paying Agent having a specified office in Luxembourg and (iii) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, a Paying Agent with a specified office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive implementing the conclusions of that meeting or any law implementing or complying with, or introduced in order to conform to, such Directive.

*(f) Notice*

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Noteholders in accordance with Condition 14.

*(g) Definitive Notes*

If definitive Notes are required to be issued, the amount of interest in respect of such Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest £0.01.

**7. Events of Default and Enforcement**

*(a) Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders shall (but, in each case, subject to paragraph (d) below), give notice to the Issuer that the Notes are, and they shall accordingly

immediately become, due and repayable at their principal amount together with accrued interest thereon and all Arrears of Interest if:

- (i) (subject to the provisions of Condition 4) default is made for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) the Issuer's authorisation under the Act is "finally withdrawn" (as defined in the Trust Deed); or
- (iii) an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up in relation to which the Trustee has given its prior approval in writing or which has been approved by an Extraordinary Resolution of the Noteholders).

*(b) Proceedings for Winding-up*

If the Notes become due and repayable (whether pursuant to paragraph (a) above, Condition 5 or otherwise), the Trustee may at its discretion institute proceedings for the winding-up of the Issuer but may take no further action to enforce the obligations of the Issuer for payment of any principal or interest (including Arrears of Interest, if any) in respect of the Notes. No payment in respect of the Notes may be made by the Issuer pursuant to paragraph (a) above, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer, save with prior Supervisory Consent.

*(c) Enforcement*

Without prejudice to paragraph (a) or (b) above, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any obligation for the payment of any principal or interest in respect of the Notes or the Coupons) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

*(d) Entitlement of the Trustee*

The Trustee shall not be bound to take any of the actions referred to in paragraph (a), (b) or (c) above to enforce the obligations of the Issuer under the Trust Deed, the Notes or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

*(e) Right of Noteholders*

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or to prove in the winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. Any such proceedings brought by any Noteholder or Couponholder shall be brought in the name of the Trustee, subject to such Noteholder or Couponholder indemnifying the Trustee to its satisfaction.

*(f) Extent of Noteholders' remedy*

No remedy against the Issuer, other than as referred to in this Condition 7, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

## 8. Taxation

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

- (i) to, or to a third party on behalf of, a holder who (a) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or similar claim for exemption but fails to do so, or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Note or Coupon; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union 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; or
- (iii) presented for payment by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union;
- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (v) where such Note or Coupon is presented for payment in the United Kingdom.

For this purpose, the "Relevant Date" in respect of any payment means the date on which the payment in respect of the Note or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "Relevant Date" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Noteholders in accordance with Condition 14.

References herein and in the Trust Deed to principal and/or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed and references herein, and in the Trust Deed, to interest shall, where the context requires, include Arrears of Interest.

## 9. Prescription

Notes 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 Notes and five years in the case of Coupons from the Relevant Date (as defined in Condition 8) relating thereto.

## 10. Meetings of Noteholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests including the modification by Extraordinary Resolution of these Conditions or other provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Condition 2, the terms concerning currency and due date for payment of principal or interest in respect of the Notes and principal amount of any Note) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. A resolution in writing signed by persons holding or representing not less than 75 per cent. in principal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed.

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

The Trustee may agree (subject to the Trust Deed), without the consent of the Noteholders or Couponholders, to any modification (except as aforesaid) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any other provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.

No modification to these Conditions or any other provisions of the Trust Deed (other than a modification which is of a formal, minor or technical nature or to correct a manifest error) shall become effective unless the prior Supervisory Consent thereto shall have been obtained (so long as there is a requirement to obtain such consent).

The Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders or Couponholders, may agree with the Issuer, without the consent of the Noteholders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 2 of any person or persons incorporated in any country in the world (other than the United States) (the "Substitute Obligor") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed, the Notes and the Coupons provided that:

- (i) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the Notes, the Coupons and the Talons, if any, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Notes, the Coupons and the Talons, if any, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor);
- (ii) (unless the Issuer's successor in business is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed, the Notes, the Coupons and the Talons are guaranteed by the Issuer (or the Issuer's successor in business) on a subordinated basis equivalent to that referred to in Condition 2(b) and in the Trust Deed and in a form and manner satisfactory to the Trustee;
- (iii) if the directors of the Substitute Obligor or other officers acceptable to the Trustee shall certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected, the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the relevant Issuer;
- (iv) without prejudice to the rights of reliance of the Trustee under (iii) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
- (v) (without prejudice to the generality of (i)) the Trustee may in the event of such substitution agree, without the consent of the Noteholders or Couponholders, if any, to a change in the law governing



the Trust Deed and/or the Notes and/or the Coupons and/or the Talons, if any, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders;

- (vi) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "Substituted Territory") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "Issuer's Territory"), the Substitute Obligor, will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Notes, the Coupons and the Talons, if any, will be read accordingly; and
- (vii) the Issuer and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the Noteholders, as the Trustee may direct.

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 Noteholders as a class and the Trustee shall not have regard to the consequences of such substitution or such exercise for individual Noteholders or Couponholders resulting from in particular their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

In connection with any substitution or such exercise as aforesaid, no Noteholder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Noteholders or Couponholders except to the extent already provided in Condition 8 and/or 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 Noteholders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **11. Transfers of Business**

If the Issuer shall transfer all or a substantial part of its long-term business to another body in accordance with Part I of Schedule 2C to the Act, the Issuer shall promptly notify the Trustee and the Noteholders of such transfer and shall procure that there be included in the assets and liabilities to be transferred to such body all the liabilities and obligations of the Issuer as principal obligor under the Notes and Coupons and all the liabilities and obligations of the Issuer under the Trust Deed, without any prior approval thereof being required from the Trustee, the Noteholders or the Couponholders, and references to the Issuer herein and in the Trust Deed, the Paying Agency Agreement, the Coupons and the Talons, if any, shall be construed accordingly. The Trustee has no obligations or duties to any person in relation to such transfer.

In this Condition, "substantial part" means any part which represents 50 per cent. or more of the amount included in the last audited balance sheet of the Issuer for long-term business provision.

## **12. Replacement of the Notes, Coupons and Talons**

Should any Note, 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 14) 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 Notes, Coupons or Talons must be surrendered before any replacement Notes, Coupons or Talons will be issued.

### 13. Indemnification of 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, any Subsidiary or any other person associated with the Issuer without accounting for any profit resulting therefrom.

### 14. Notices

All notices regarding the Notes will be valid if published in one leading London daily newspaper (which is expected to be the *Financial Times*) and so long as the Notes are listed on the Luxembourg Stock Exchange and the Rules of that Stock Exchange so require in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxembourger Wort*) or, if this is not practicable in the opinion of the Trustee, in one other leading English language daily newspaper which is approved by the Trustee with circulation in Europe. Any notice published in a newspaper as aforesaid shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. If publication is not practicable in any such newspaper as aforesaid, notice will be valid if given in such other manner, and shall be deemed to have been given on such date, as the Trustee shall approve.

### 15. Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further bonds, notes or debentures (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds, notes or debentures of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, subordination, interest, redemption and otherwise as the Issuer may determine at the time of their issue. Any further bonds, notes or debentures which are to form a single series with the outstanding bonds, notes or debentures of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds, notes or debentures may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

### 16. Contracts (Rights of Third Parties) Act 1999

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

### 17. Governing Law and Jurisdiction

#### (a) Governing Law

The Trust Deed, the Notes, Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

#### (b) Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately £197,268,000, will be used to fund the general business and commercial activities of the Issuer.

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

The Temporary Global Note and the Permanent Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

### Exchange

Each of the Temporary Global Note and the Permanent Global Note is exchangeable as described under "Terms and Conditions – 1. Form, Denomination and Transfer".

### Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

### Notices

So long as the Notes are represented by the Permanent Global Note and such Permanent Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxembourgish Wort).

### Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest, including any Arrears of Interest) from the appropriate Relevant Date (as defined in "Terms and Conditions – 8. Taxation").

### Purchase and Cancellation

Cancellation of any Note represented by the Permanent Global Note which is required by the terms and conditions of the Notes to be cancelled following its purchase will be effected by a reduction in the principal amount of the Permanent Global Note.

### Trustee's Powers

In considering the interests of Noteholders while the Permanent Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements as against the clearing system or its operator to amounts of principal in respect of the Permanent Global Note and may consider such interests as if such accountholders were the holder of the Permanent Global Note.

## DESCRIPTION OF THE ISSUER

### History

The Scottish Temperance Assurance Society Limited was founded in 1883. In 1952, by Act of Parliament, it became a mutual assurance society and changed its name to Scottish Mutual Assurance Society. On 1 January 1992, Scottish Mutual Assurance Society demutualised and its business was transferred to the Issuer.

The long term fund of Pegasus Assurance Limited ("Pegasus"), acquired by the Abbey National Group in 1995, was merged into that of the Issuer on 1 January 1999 under a transfer made in accordance with Schedule 2C to the Insurance Companies Act 1982.

### Constitution Of The Issuer

The Issuer was incorporated as a public limited company with limited liability in Scotland on 4 September 1991 under the Companies Act 1985 (as amended) and registered in Scotland with registered number 133846. The Issuer is a wholly owned subsidiary of Abbey National SMA Holdings Limited. Its ultimate parent company is Abbey National plc ("Abbey National" and, together with its subsidiaries, the "Abbey National Group").

As at the date of this document the authorised share capital of the Issuer is £1,000,000,000 divided into 10,000,000,000 ordinary shares of 10p each, 6,675,000,000 shares of which have been issued and fully paid. This includes the issue of 1,800,000,000 shares to its parent company on 20 June 2001 for cash at par. In 1999 and 2000 the Issuer issued 2,865,000,000 shares and 2,000,000,000 shares, respectively, to its parent company for cash at par.

The registered and head office of the Issuer is Abbey National House, 301 St. Vincent Street, Glasgow G2 5HN. The memorandum and articles of association form the constitutional documents of the Issuer.

### The Scottish Mutual Assurance Group

The Issuer, together with its subsidiaries, are referred to as the "Scottish Mutual Assurance Group" or the "Group".

The total assets of the Scottish Mutual Assurance Group as at 31 December 2000 were £15,390 million (£13,514 million as at 31 December 1999).

The Group has grown substantially since its demutualisation and acquisition by the Abbey National Group. Since January 1992, new business premiums have grown by over 800 per cent. The Group's total new business premiums were approximately £180 million in 1992 whereas for 2000 they exceeded £1,700 million.

### The Business of the Group

#### Business

The principal activity of the Group is the provision of pension, investment, protection and life assurance products. The Group's business is written in the UK in respect of long-term insurance business provided primarily to UK customers.

The Group distributes its products solely through independent financial advisers ("IFAs") primarily in the UK. The Group has a branch network consisting of 12 offices nationwide with 14 sales teams servicing the IFA distribution channel. The Issuer has been one of the UK's fastest growing IFA life businesses measured by new business premiums generated from UK life and pensions business over the period between 1994 and 1999.

The operations of the Group form part of the Life operations of the business to business division of the Abbey National Group. The Group does not have any employees. Abbey National Financial and Investment Services plc ("ANFIS"), a central services company, provides shared services and facilities to the Life operations of the Abbey National Group which includes the Scottish Mutual Assurance Group and Abbey National Life. The shared services and facilities include the provision of actuarial and technical advice, human resources, finance, administrative and customer services and computer systems and services. ANFIS also provides sales and marketing services to the Group.

The centralised services provided by ANFIS deliver a cost sharing platform which contributes significantly to the operational and cost efficiencies of the Scottish Mutual Assurance Group.

## Product and services overview

The Group's principal products fall into four main categories: pensions, investments, protection and life assurance. The pension, investment and life assurance products are marketed primarily under the Scottish Mutual brand whilst the protection products are marketed primarily under the Pegasus brand.

Across these categories, the Group markets a broad range of products. The main product lines are summarised below:

### *Pension products*

For the year ended 31 December 2000, new business premium income from pension products amounted to £426.8 million, representing 25 per cent. of the Group's total new business premium income. The principal pension products are:

Self-invested Personal Pensions	Group Pension Plans
Buyout Plans	Pension Term Assurance
Additional Voluntary Contribution Plans	Phased Retirement Plans
Trustee Investment Pension Plans	Annuities
Individual Pension Plans (including Small Self Administered Schemes)	Executive Pension Plans

### Stakeholder Pensions (from April 2001)

In 1997 Scottish Mutual Assurance launched its Complete Retirement Package ("CRP"), a comprehensive set of retirement planning solutions which offer control, choice and flexibility tailored for individual customers. The CRP allows IFAs to create a package for their clients which fits their individual needs based on a number of factors including their personal circumstances, their income requirements and their attitude to risk. The CRP also includes a self-invested option.

The Scottish Mutual Assurance Group has launched its Stakeholder Pension product and expects to be active in the new Stakeholder Pension market as well as in the traditional group and individual pension arena.

### *Investment Products*

For the year ended 31 December 2000, new business premium income from investment products amounted to £1,266.8 million, representing 74.1 per cent. of the Group's total new business premium income. The principal investment products are single premium unit linked investment bonds, with-profits bonds and structured income bonds.

In 1996 Scottish Mutual Assurance entered the structured products market and over the past few years has become an established participant in this market offering a number of tranche based investment and income bonds which are linked to the performance of key indices. The Scottish Mutual Assurance Group

is also active in the single premium with profit and unit linked bonds market. At the end of 2000, the Group's share of the IFA market for with-profits bonds stood at 13.7 per cent. of a market worth £8,658.4 million.

### *Protection Products*

For the year ended 31 December 2000, new business premium income from protection products amounted to £13.7 million, representing 0.8 per cent. of the Group's total new business premium income. The principal protection products are whole of life plans, term assurance plans and critical illness policies.

The Group markets a range of protection contracts under the Pegasus brand. The Pegasus Personal Assurance Plan provides protection for individuals and their families against the financial effects of death, critical illness or disability. Pegasus was amongst the first providers to introduce a critical illness buyback option with this type of contract which allows a policyholder to take out further cover for heart attack, cancer and stroke following a claim for critical illness or total permanent disability.

### *Life Assurance*

For the year ended 31 December 2000, new business premium income from life assurance products amounted to £2.4 million, representing 0.1 per cent. of the Group's total new business premium income. The principal life products are whole of life assurance plans, endowments and term assurance plans.

In October last year Pegasus launched a new contract called the Wealth Preservation Plan, a product primarily aimed at high net worth individuals in connection with inheritance tax planning.

### *Premium Income*

The table below sets out details of the new business premiums earned by the Group in 1999 and 2000:

	<i>New Business Single Premiums</i>		<i>New Business Annual Premiums</i>		<i>Total New Business Premiums<sup>(1)</sup></i>		<i>Annualised New Business Premiums<sup>(2)</sup></i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£ million</i>							
Pensions	389.9	371.9	36.9	41.6	426.8	413.5	75.9	78.8
Investments	1,266.8	1,294.6	–	–	1,266.8	1,294.6	126.7	129.5
Protection	–	–	13.7	7.5	13.7	7.5	13.7	7.5
Life assurance	–	–	2.4	2.1	2.4	2.1	2.4	2.1

#### *Note:*

- (1) Total New Business Premiums set out above are the total new business premiums for the Group but do not include premiums reassured from Abbey National Life plc or Scottish Mutual International plc (both of which are outside the Group) or annual premium payments made under existing policies all of which are reflected in gross premiums written in the profit and loss accounts of the Issuer set out on page 29 of this Offering Circular.
- (2) The measurement of Annualised New Business Premiums is an industry standard for reporting new business and equates to total annual premiums plus 10 per cent. of single premiums.

### *Investment Management*

The Issuer has entered into an agreement with Abbey National Asset Managers Limited ("ANAM") under which ANAM, a wholly owned subsidiary of Abbey National, provides investment management services to the Issuer. Under the terms of the agreement, ANAM manages funds on behalf of the Group on a discretionary basis, but subject to the investment policy and restrictions laid down by the Issuer.

ANAM provides investment management services to the Abbey National Group. As at 31 December 2000, ANAM had funds under management of approximately £20.7 billion, of which approximately £13.9 billion were managed on behalf of the Scottish Mutual Assurance Group.

The Issuer has access to a total of 28 active funds managed by ANAM. These funds include risk-graded funds, gilt and fixed interest funds, with profits funds, UK equity and UK smaller companies funds and international, North American, European, Japanese and Far Eastern funds.

In addition to the funds available through ANAM, in order to increase consumer choice and provide access for clients to other fund managers, the Issuer has recently launched four external funds: Fidelity Managed Fund, Merrill Lynch Managed Fund, Newton Managed Fund and Perpetual Managed Fund.

### **Investment Policy**

The Issuer sets out the investment policy for the funds managed by ANAM on behalf of the Scottish Mutual Assurance Group.

The Issuer, through its credit and market risk committee, provides a broad direction from time to time to ANAM as to how the assets in the funds managed by ANAM on behalf of the Group are to be invested. Changes in the asset mix are made from time to time to reflect the Issuer's expectations of economic and market developments. The asset mix is chosen by the Issuer with a view to maximising the long-term return on investments whilst paying due attention to meeting the Issuer's obligations to fulfil its liabilities, including its guaranteed liabilities.

Scottish Mutual Assurance has two sub-funds in its long term insurance fund, the With-Profits Sub-Fund and the Other Business Sub-Fund. The With-Profits Sub-Fund contains the with-profits business and the investment component of unitised with-profits business. The Other Business Sub-Fund contains all other business including all the property-linked business, index-linked business, the non-investment component of unitised with-profits business, permanent health insurance business and annuities in payment.

#### ***With-Profits Sub-Fund***

The With-Profits Sub-Fund invests in a mix of equities, property and fixed interest stocks. In recent years the proportion of the With-Profits Sub-Fund invested in equities (the "equity backing ratio", or "EBR") has been held at a relatively high level, often in the range of 70-75 per cent.. However, during 2000 and for the first quarter of 2001, the Issuer has taken a more cautious view of the likely returns available from equity investment and has reduced the EBR.

#### ***Other Business Sub-Fund***

Apart from property-linked business and index-linked business which have their own investment guidelines, the investment guidelines permit up to 20 per cent. of the Other Business Sub-Fund to be invested in equities. However, over the last year or so, the EBR of the Other Business Sub-Fund has been significantly lower than this.

### **Bonus Policy**

The holders of with-profits contracts normally receive both annual and terminal bonuses in respect of their policies. Terminal bonus is generally declared only when a policy becomes a claim.

When a declaration of bonus is being considered some "Excess" must be retained. This Excess is the amount by which the admissible assets exceed the liabilities and the required minimum solvency margin of the Issuer.

The principal determinant for annual bonus rates is Scottish Mutual Assurance's perception of likely future rates of investment return. Terminal bonuses are determined by comparing actual investment returns achieved against the returns assumed in annual bonuses during the lifetime of the policies concerned. The Issuer aims to set annual bonus rates at a level which it can reasonably expect to be sustainable in the medium term. Bonus rates may reduce if yields obtained fall or fundamental economic changes suggest that future yields will be lower.



The Issuer's primary aim is to declare the best rates that can be reconciled with the limiting factors, some of which are outlined above, whilst achieving fairness of treatment between investors holding policies issued at different times.

## **Distribution**

Scottish Mutual Assurance has historically distributed and continues to distribute its range of products solely through the IFA channel and primarily in the UK.

Scottish Mutual Assurance has increased its share of the IFA market from around 2 per cent. at the time of its acquisition by the Abbey National Group in 1992 to approximately 4 per cent. in 2000.

Scottish Mutual Assurance services the IFA channel with a network of 109 sales consultants, 14 sales managers, 3 regional sales directors, 7 pensions managers, 4 healthcare managers and 3 managers in the business development unit. The business development unit was set up in 1999 to provide effective and efficient communication channels between the Scottish Mutual Assurance Group and IFAs at different levels within IFA organisations so as to ensure that the Group keeps abreast of the current business developments in the IFA and wider financial services market.

The Group's business growth is driven by its strategy of providing innovative and competitive products and sound long term investment performance for clients.

According to figures from the Association of British Insurers, the IFA market share in the individual life market grew by nearly 10 per cent. between 1996 and 2000 and in the individual pensions market by over 16 per cent. in the same period. The Group has invested in technology and people to ensure that it is well positioned to anticipate and capitalise on any future changes within the IFA channel.

## **Industry Developments**

### **Personal Pensions**

The Financial Services Authority ("FSA") has been conducting a review of the sale of personal pensions, which enable policyholders to replace or opt-out of a state or company pension plan, sold between certain dates. The first phase of the review has been completed and the Group has begun the second phase of the review which is on target to meet the deadlines set by the FSA for this phase. As the Group operated principally through the IFA channel throughout the period under review, the Issuer believes that the Group's exposure to any liability for pension mis-selling is limited and does not consider it to be significant in terms of the Group's overall financial position.

### **Endowment Policies**

In December 1999, the FSA announced the findings of its work on mortgage endowments. A key conclusion was that, on average, holders of endowment mortgages have enjoyed returns which mean they have fared at least as well as they would have done with a repayment mortgage. Nevertheless, following the FSA review, and as required by the FSA, all of the Group's mortgage endowment policyholders will receive policy-specific letters advising them whether their investment is on track to cover their mortgage.

From the endowment review undertaken by Scottish Mutual Assurance to date, the Issuer believes the contracts of at least three quarters of the Group's endowment policyholders are on target towards producing maturity proceeds which will meet the repayment of the loan the policy was intended to cover. For the majority of the other policyholders, the investment return required during the remainder of the contract will be between 6 per cent. and 8 per cent..

### **Guaranteed Annuities**

In common with other pension and life policy providers, the Group has written policies with a guaranteed annuity rate option ("GAR"). Such policies become more valuable to the policyholders as interest rates

and, thus, current annuity rates, fall. The Group has reserved for policies with a GAR on the basis of a 100 per cent. take up rate in respect of such policies.

In July 2000, the House of Lords ruled in *Equitable Life Assurance Society v. Hyman* ("Equitable Life") that Equitable Life Assurance Society was not entitled to operate a differential terminal bonus policy. As it has not been the practice of the Scottish Mutual Assurance Group to operate differential terminal bonus policy on such basis, the Issuer believes that its terminal bonus payment practice in relation to policies with a GAR has been and remains appropriate. Nevertheless, the Issuer has considered it prudent to conduct a review, involving external legal advice, of the Group's practice in the light of the Equitable Life ruling. Although the review is not yet complete, and therefore the full implications of the Equitable Life ruling cannot be determined, nothing has yet emerged from the review which would lead the Issuer to consider that its past bonus payment practice in relation to policies with a GAR is inappropriate.

## **Recent Developments**

### **Scottish Provident**

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

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

The acquisition has been approved by Scottish Provident's members and the relevant regulatory authorities and sanctioned by the Court of Session in Scotland. It is currently anticipated that completion of the acquisition will take place on 1 August 2001.

The Scottish Provident brand will be retained and it is the intention of Abbey National that the business of Scottish Provident be transferred to the Issuer. Such transfer would be dependent, amongst other things, on obtaining the relevant regulatory approvals. The reason the Abbey National Group would like the business of Scottish Provident to be transferred to the Issuer is that Scottish Mutual Assurance already carries on business of a broadly similar nature to that of Scottish Provident. Therefore it is considered to be sensible, from an economic perspective, for both businesses to be operated within the same company.

In broad terms, Scottish Provident's powers (set out in The Scottish Provident Institution Act 1927) do not permit the transfer of Scottish Provident's business other than to a company which Scottish Provident has formed or assisted in forming. The Issuer is not such a company. Therefore, in order for Scottish Provident's business ultimately to be transferred to the Issuer, the business first had to be transferred to another company which Scottish Provident formed or assisted in forming.

It is not yet clear when the onward transfer of Scottish Provident from within the Abbey National Group to the Issuer might take place. However, any such transfer would need to be effected by means of a scheme under Schedule 2C to the Insurance Companies Act 1982. The scheme to transfer the business to the Issuer would, therefore, need to be sanctioned by the court and the views of an independent actuary would need to be obtained. No further compensation for loss of membership rights would be payable to Scottish Provident policyholders in the event of such transfer.

### **Lloyds TSB Group Plc**

During December 2000 Abbey National received proposals from Lloyds TSB Group plc ("Lloyds TSB") for a takeover of Abbey National by Lloyds TSB. These proposals were rejected by Abbey National as being

inadequate and uncertain. On 31 January 2001 Lloyds TSB announced its firm intention, subject to pre-conditions, to make an offer to acquire Abbey National. The offer and the posting of the offer documentation was subject to satisfaction or waiver of the pre-conditions that the proposed transaction would not be referred to the Competition Commission and that the Board of Abbey National would agree to recommend the offer.

The terms of Lloyds TSB's pre-conditional offer were the same as those put to Abbey National in December 2000 and, on 7 February 2001, Abbey National announced that its Board had "concluded that the proposed offer terms remain inadequate and subject to material uncertainties."

Following the submission by Lloyds TSB of a Merger Notice to the Office of Fair Trading under Section 75A of the Fair Trading Act 1973, the Secretary of State for Trade and Industry announced on 23 February 2001 that Lloyds TSB's proposed takeover had been referred to the Competition Commission.

The Competition Commission delivered its report to the Secretary of State for Trade and Industry on 12 June 2001 and, on 10 July 2001, the Secretary of State announced that she had decided not to permit the proposed takeover. Accordingly, Lloyds TSB cannot now proceed with an offer for Abbey National.

## Directors

The following is a list of the directors of the Issuer and their principal activities (if any) performed outside the Group which are or may be significant with respect to the Issuer.

<i>Name</i>	<i>Responsibilities in relation to the Issuer</i>	<i>Other significant directorships</i>
Ian Harley	Chairman	Abbey National plc (Chief Executive) Abbey National Life plc Abbey National Treasury Services plc Rentokil Initial plc
James Allan Denholm	Deputy Chairman	Abbey National Life plc
Graham Robert Pottinger	Chief Executive	Abbey National Asset Managers Limited Abbey National Dublin Investment Fund plc Abbey National Financial and Investment Services plc Abbey National Life plc (Managing Director) Abbey National SMA Holdings Limited Abbey National Treasury Services plc
John William Duffus Campbell	Director	Abbey National Financial and Investment Services plc
Timothy Charles William Ingram	Director	Abbey National plc Abbey National Life Plc First National Bank Plc
Andrew Howard Pople	Director	Abbey National plc Abbey National Life plc
Mark Boleat	Non-executive Director	Abbey National Life plc Comino Group plc Countryside Properties plc Eco-Data Limited National Consumer Council Open Door Finance Limited
Alan Robert Devereux	Non-executive Director	Abbey National Life plc Quality Scotland Foundation Gleneagles Hotels Plc
James Daniel Gallagher	Non-executive Director	Abbey National Life plc

The business address of each of the Directors referred to above is at Abbey National House, 301 St. Vincent Street, Glasgow G2 5HN with the exception of Ian Harley, Timothy Ingram and Andrew Pople for each of whom the business address is Abbey House, 215-229 Baker Street, London NW1 6XL.

## Regulatory Environment

The UK life assurance industry is regulated by the FSA. The FSA exercises functions of HM Treasury which have been contracted out to the FSA since 1 January 1999. Any company wishing to carry on life assurance business in the UK must, with certain exceptions, be specifically authorised to do so by the FSA. The relevant requirements are currently set out in the Insurance Companies Act 1982 (the "Act") and regulations made under the Act. It is expected that during the course of this year almost all of the provisions of the Act will be repealed by the Financial Services and Markets Act 2000 ("FSMA") and by rules made by the FSA under powers granted by the FSMA. The new regulatory environment is, however, expected to reflect the existing requirements set out below.

The FSA has the power to grant, and in specific circumstances to restrict or withdraw, an insurer's authorisation to carry on particular classes of insurance business or insurance business generally. In addition, the FSA has extensive powers of intervention under the Act. These include the power to restrict a company's freedom to dispose of its assets or accept new business. The FSA also has the power to require the company to take such action as the FSA considers appropriate for the purpose of protecting policyholders or potential policyholders against the risk that the company may be unable to meet its liabilities or to fulfil the reasonable expectations of its policyholders or potential policyholders.

The Act also requires that each insurance company maintains a required minimum margin of solvency, the calculation of which depends upon the size and type of insurance business written. The methodology for calculating the required minimum margin of solvency is currently set out in the Insurance Companies Regulations 1994. Failure to maintain the required minimum margin of solvency is a ground upon which the FSA may exercise its wide powers of intervention. The Issuer's required minimum margin of solvency as at 31 December 2000 was £438 million, which represents 3.3 per cent. of total liabilities. The Issuer's actual margin as at 31 December 2000 was £689 million or 5.2 per cent. of total liabilities. Had the Notes been issued prior to that date and an order made under Section 68 of the Act permitting the Notes to be left out of account (to the maximum extent of 50 per cent. of the required minimum margin of solvency) in calculating liabilities, the margin would have risen to £889 million or 6.7 per cent. of total liabilities.

The EC Third Life Insurance Directive (the "Directive") sets out the terms on which Member States may permit subordinated loan capital to be included as an asset of an insurance company in calculating the company's solvency margin. Under the Directive, the amount of such capital may be aggregated with the issuer's qualifying assets for the purposes of calculating the solvency margin up to a limit (in the case of subordinated loans without any fixed maturity) of 50 per cent. of the required minimum margin of solvency.

## CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the figures for the shareholders' equity, borrowings and contingent liabilities of the Issuer as at 31 December 2000, as extracted without material adjustment from the Issuer's annual audited accounts.

	<i>As at 31 December 2000</i>
	<i>£'m</i>
<b>Borrowings</b>	
Deposits received from reinsurers	487
Amounts owed to credit institutions	1,044
<b>Total Borrowings</b>	<u>1,531</u>
<b>Contingent Liabilities</b>	
Outstanding calls, uncalled liabilities and underwriting commitments on certain securities held	<u>18</u>
<b>Total Contingent Liabilities</b>	<u>18</u>
<b>Shareholders' Equity</b>	
<b>Share Capital</b>	
Authorised: 10,000,000,000 ordinary shares of 10p each	1,000
Allotted, called up and fully paid: 4,875,000,000 ordinary shares of 10p each	488
Share premium account	9
Profit and loss account	78
<b>Total Shareholders' Equity</b>	<u>575</u>

### Notes:

- (1) Amounts owed to credit institutions represent sums deposited back to the Issuer by such institutions in order to reduce the counterparty risk to the Issuer on particular assets held to back certain policyholder benefits.
- (2) The issued share capital of the Issuer was increased on 20 June 2001 to 6,675,000,000 ordinary shares of 10p each. Other than such increase, there has been no material change in the authorised or issued share capital, or in the borrowings, of the Issuer since 31 December 2000.  
Other than a decrease in the Issuer's uncalled liabilities and underwriting commitments on certain securities held to £16 m as at 25 April 2001, there has been no material change in the Issuer's contingent liabilities since 31 December 2000.
- (3) The table has not been adjusted to take account of the issue of the Notes.
- (4) Amounts in currencies other than sterling have been translated into sterling at the rates of exchange prevailing at the close of business on 31 December 2000.
- (5) All intra-group loans are excluded from the above table.
- (6) There is a contingent liability for all life assurance companies to pay levies to the Investors Compensation Scheme towards the cost of compensating investors who had been sold policies by authorised independent financial advisers and who are unable to obtain redress elsewhere following the FSA review of pension transfers and opt-outs. It is not presently possible for the Issuer to assess the extent of this contingent liability.
- (7) Save for the information disclosed herein, there has been no material change in the capitalisation of the Issuer since 31 December 2000.

# FINANCIAL INFORMATION OF THE ISSUER

## Profit and loss accounts

for the year ended 31 December 2000

	Notes	2000 £m	Consolidated 1999 £m	2000 £m	Company* 1999 £m
<b>Technical account – long term business</b>					
Earned premiums, net of reinsurance	2(a)				
Gross premiums written		2,809	2,238	2,809	2,238
Outward reinsurance premiums		(85)	(70)	(85)	(70)
		2,724	2,168	2,724	2,168
<b>Other income</b>					
Investment income (1999 – restated)	3	630	841	626	837
Unrealised gains on investments	3	–	749	–	750
Other technical income, net of reinsurance	4(a)(b)	–	41	–	41
		630	1,631	626	1,628
<b>Total income</b>		<b>3,354</b>	<b>3,799</b>	<b>3,350</b>	<b>3,796</b>
<b>Claims incurred, net of reinsurance</b>					
Claims paid	2(c),5				
– gross amount		956	707	956	707
– reinsurers' share		(44)	(37)	(44)	(37)
– net of reinsurance		912	670	912	670
<b>Change in provision for claims</b>					
– gross amount	18	4	(1)	4	(1)
– reinsurers' share		2	(3)	2	(3)
– net of reinsurance		6	(4)	6	(4)
		918	666	918	666
<b>Change in other technical provisions, net of reinsurance</b>					
Long term business provision, net of reinsurance	2(c),18				
– gross amount		2,865	1,625	2,865	1,625
– reinsurers' share		(68)	(29)	(68)	(29)
		2,797	1,596	2,797	1,596
Other technical provisions, net of reinsurance					
– technical provision for linked business		(93)	460	(93)	460
		2,704	2,056	2,704	2,056
<b>Other expenditure</b>					
Net operating expenses	6	154	139	153	138
Investment expenses and charges	3	135	74	132	72
Unrealised losses on investments	3	715	–	715	–
Other technical charges, net of reinsurance	4(b)	15	–	15	–
Tax attributable to the long term business (1999 – restated)	8	(51)	114	(51)	114
Transfer (from)/to the fund for future appropriations	17	(1,204)	746	(1,204)	746
		(236)	1,073	(240)	1,070
<b>Total expenditure</b>		<b>3,386</b>	<b>3,795</b>	<b>3,382</b>	<b>3,792</b>
<b>Sub-total (balance on the technical account – long term business)</b>		<b>(32)</b>	<b>4</b>	<b>(32)</b>	<b>4</b>

\* As used in this Financial Information section, "Company" means the Issuer.

Profit and loss accounts (continued)  
for the year ended 31 December 2000

	<i>Notes</i>	<i>Consolidated</i>		<i>Company</i>	
		<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance on the technical account					
– long term business		(32)	4	(32)	4
Tax attributable to balance on the					
long term business technical account	8	(13)	2	(13)	2
Operating (loss)/profit on ordinary activities					
before taxation		(45)	6	(45)	6
Tax on (loss)/profit on ordinary activities	8	13	(2)	13	(2)
(Loss)/profit for the financial year from					
continuing operations		(32)	4	(32)	4
Dividends – interim dividend paid		–	(15)	–	(15)
Retained (loss)/profit for the financial year		(32)	(11)	(32)	(11)

Statement of total recognised gains and losses for the year ended 31 December 2000

There were no recognised gains or losses affecting shareholders' funds other than those disclosed in the profit and loss accounts.



## Balance sheets

at 31 December 2000

	Notes	2000 £m	Consolidated 1999 £m	2000 £m	Company 1999 £m
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	9	436	315	436	315
Investments in group undertakings and participating interests	10(a)	–	–	6	5
Other financial investments	10(b)(c)	10,366	9,083	10,365	9,082
		10,802	9,398	10,807	9,402
<b>Assets held to cover linked liabilities</b>	11	3,259	3,358	3,259	3,358
<b>Reinsurers' share of technical provisions</b>					
Long term business provision	18	493	425	493	425
Claims outstanding		1	3	1	3
Technical provision for linked liabilities		16	3	16	3
		510	431	510	431
<b>Debtors</b>					
<b>Debtors arising out of direct insurance operations</b>					
– policyholders		8	5	8	5
– reinsurers		12	11	12	11
Other debtors	12	37	23	37	22
		57	39	57	38
<b>Other assets</b>					
Tangible assets	13	1	6	1	6
Stocks – units for resale		–	1	–	–
Cash at bank and in hand	14	417	70	412	67
		418	77	413	73
<b>Prepayments and accrued income</b>					
Accrued interest and rent (1999 – restated)		77	34	77	34
Deferred acquisition costs		184	163	184	163
Other prepayments and accrued income		83	14	83	14
		344	211	344	211
<b>Total assets</b>		15,390	13,514	15,390	13,513
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Called up share capital	15				
Share premium account	16	488	288	488	288
Profit and loss account		9	9	9	9
		78	110	78	110
Shareholders' funds attributable to equity interests		575	407	575	407
<b>Fund for future appropriations</b>	17	285	1,489	285	1,489
<b>Technical provisions</b>					
Long term business provision	18	9,462	6,597	9,462	6,597
Claims outstanding		35	31	35	31
		9,497	6,628	9,497	6,628
<b>Technical provision for linked liabilities</b>	18	3,277	3,357	3,277	3,357
<b>Provisions for other risks and charges (1999 – restated)</b>	19	101	190	101	190
<b>Deposits received from reinsurers</b>	20	487	426	487	426
<b>Creditors</b>					
<b>Creditors arising out of direct insurance operations</b>					
– policyholders	21	30	19	30	19
– reinsurers		11	16	11	16
Amounts owed to credit institutions		1,044	893	1,044	893
Other creditors including taxation and social security		53	78	53	77
		1,138	1,006	1,138	1,005
<b>Accruals and deferred income</b>		30	11	30	11
<b>Total liabilities</b>		15,390	13,514	15,390	13,513

Included in capital and reserves for the Company are non-distributable reserves of £460m (1999: £167m).

Approved by the Board of Directors on 12 February 2001 and signed on its behalf by:

G R Pottinger  
Director

## Notes to the accounts

### 1. Accounting policies

#### Basis of presentation

The accounts are prepared on the basis of the accounting policies set out below. The group accounts, which consolidate the accounts of the Company and its wholly owned subsidiary undertakings, have been prepared in compliance with the special provisions relating to insurance groups of section 255A and Schedule 9A to the Companies Act 1985. The accounts are prepared in accordance with applicable UK accounting standards. They are also prepared under the historical cost accounting rules, modified to include the revaluation of investments. The Company uses the acquisition method of consolidation.

These accounts have also been prepared in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary.

#### Premiums

Premiums are credited when the policy liability is set up and the premium becomes due. Reinsurance premiums are charged when they become payable.

#### Pension annuity reinsurance

During 1998, as part of the on-going review of the structure and financing of the business, a decision was taken to reassure all risks existing at 31 December 1998 under individual and group pensions annuity contracts in force and in payment as at 30 November 1998. The reinsurance contract also allows the option to reassure future business of those contract types. The reinsurance premiums payable in respect of these arrangements are payable by instalments, quarterly, until the year 2052.

Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related creditor are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as interest within 'Investment expenses and charges' in the profit and loss account. In the balance sheet, the creditor is disclosed as 'Deposits received from reinsurers'.

#### Claims

Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Surrenders are recorded on the earlier of the date when paid or when the policy benefit (or part thereof) ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Claims on participating business include bonuses payable. Claims payable include costs of settlement. Reinsurance recoveries are credited to match the relevant gross amounts.

#### Investment return

Investment income and expenses includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend. Following the introduction of FRS16 during 2000, UK dividend income is no longer grossed up for previously applicable tax credits. As a result of this change in accounting policy, comparative information in these accounts has been restated where appropriate. This change in policy has no effect on the reported results. Interest, rents and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account. This policy is not in compliance with the Companies Act requirements to show unrealised gains and losses as those gains and losses arising since the last accounting reference date. There is no net effect on the profit and loss account of this departure.

The investment return (and taxation thereon) on assets which are directly connected with the carrying on of long term business are dealt with in the technical account – long term business.

#### **Acquisition costs and deferred acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year.

For both linked and non-linked business, an explicit deferred acquisition costs asset has been established in the balance sheet. The basis of amortisation of the deferred acquisition costs is proportional to margins in respect of the related policies. Deferral of costs has been limited to the extent that there are available future margins. Costs have not been deferred after appropriate margins have been received.

#### **Derivatives**

Outstanding derivative contracts, including forward foreign exchange contracts, are marked to market on the balance sheet date. Unrealised gains or losses thereon are included in the profit and loss accounts as unrealised gains or losses on investments.

#### **Investments**

All investments, including those classified under assets held to cover linked liabilities, are stated at their current value as described below.

Land and buildings are valued annually and are stated at the open market value determined on the date of their most recent valuation. The valuation of each property is carried out in accordance with generally recognised methods of valuation by a qualified chartered surveyor. An allowance is made for estimated costs of disposal.

Buildings formerly occupied by the Company for its own activities were depreciated over 100 years on a straight line basis. In accordance with the Statement of Standard Accounting Practice 19, no depreciation or amortisation is provided in respect of properties that are not owner occupied. This treatment, as regards properties that are not owner occupied, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, such properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. Depreciation is only one of the many factors reflected in the annual valuation. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. This departure from the Act has no effect on reported results.

Debt securities and other fixed income securities are stated at their current value.

Listed investments are valued at market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Unlisted investments for which a market exists are valued at the average price at which they were traded on the balance sheet date or on the last trading day before that date.

Units in authorised unit trusts held for the long term have been valued at their realisable value which is taken to equate to the price at which the managers under the scheme would purchase the units if required to do so.

Investments in group undertakings and participating interests are stated at net asset value.

Other unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

#### **Fund for future appropriations**

The balance on this account represents funds, the allocation of which either to participating policyholders or to shareholders has not been determined at the balance sheet date. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business in the Company's long term business fund.

#### **Long term business provision/technical provision for linked liabilities**

The long term business provision is determined by the Company's Appointed Actuary following his annual investigation of the long term business and reflects the value of related assets and the yield derived therefrom.

The long term business provision is calculated initially to comply with the reporting requirements under the Insurance Companies Act 1982, principally using the net premium valuation method. Accordingly it includes explicit provision for vested bonuses including those relating to the current declaration. No such explicit provision is made for future reversionary and terminal bonuses. The net premium valuation method makes implicit provision for these bonuses by reducing the valuation rate of interest accordingly. This statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation, general contingency reserves, certain reserves required under insurance companies regulations and deferred acquisition costs allowed for in the valuation. The long term business provision includes the non-unit liabilities and the with-profit unit liabilities in respect of unit linked business. The technical provision for linked liabilities is based on the market value of the related assets.

#### **Taxation**

Deferred taxation is provided at appropriate rates of corporation tax in respect of timing differences where there is a reasonable probability that such taxation will become payable and in respect of the contingent capital gains tax arising on the unrealised appreciation of assets.

The long term business fund element of the transfer from the long term business technical account to the non-technical account is grossed up at the full rate of corporation tax applicable to the period, as an approximation to the effective tax rate.

#### **Tangible assets**

Tangible assets are depreciated on a straight line basis over their estimated useful lives. The periods used are as follows:

Fixtures and fittings – 8 years

#### **Leases**

Leases which transfer substantially all the benefit and risks of ownership are accounted for as finance leases. Assets subject to finance leases are capitalised at their fair value, and the corresponding commitment is included within creditors.

### Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

## 2. Premium, bonus and balance sheet analysis

All business is written in the UK in respect of long term insurance business provided primarily to UK customers. Single premiums from property-linked business include £522m (1999: £272m) of premiums reassured from Abbey National Life plc and £370m (1999: £65m) of premiums reassured from Scottish Mutual International plc. Premiums from individuals include group personal pension scheme premiums. Premiums under property-linked contracts include those that are invested in with-profit units. Single premiums are all classified as new business and include a) DSS rebates, b) non-recurring increments to existing policies and c) funds at retirement under pension contracts that are left with the Company.

(a) Premiums written – consolidated and company	2000			1999		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
<b>Ordinary business</b>						
Non participating contracts						
– periodic premium	12	(2)	10	5	(1)	4
– single premium	84	–	84	168	–	168
Participating contracts						
– periodic premium	29	–	29	29	–	29
Property-linked contracts						
– periodic premium	42	(9)	33	35	(7)	28
– single premium	2,043	–	2,043	1,432	–	1,432
	<u>2,210</u>	<u>(11)</u>	<u>2,199</u>	<u>1,669</u>	<u>(8)</u>	<u>1,661</u>
<b>Pension business</b>						
Non participating contracts						
– periodic premium	3	–	3	3	–	3
– single premium	66	(58)	8	62	(58)	4
Participating contracts						
– periodic premium	33	–	33	26	–	26
– single premium	5	–	5	6	–	6
Property-linked contracts						
– periodic premium	143	(16)	127	137	(4)	133
– single premium	349	–	349	335	–	335
	<u>599</u>	<u>(74)</u>	<u>525</u>	<u>569</u>	<u>(62)</u>	<u>507</u>
Total premiums written	<u>2,809</u>	<u>(85)</u>	<u>2,724</u>	<u>2,238</u>	<u>(70)</u>	<u>2,168</u>
Being:						
– premiums from individuals	2,788			2,216		
– premiums under group contracts	<u>21</u>			<u>22</u>		
Total premiums written	<u>2,809</u>			<u>2,238</u>		

The amounts shown above for reinsurance premiums in connection with periodic premium property-linked pension business include amounts reassured to Scottish Mutual Pensions Limited, a fellow subsidiary of Abbey National plc, less sums retroceded in respect of certain unit liabilities, as follows:

	2000 £m	1999 £m
Reinsurance premiums payable	21	4
Retroceded premiums receivable	(5)	(1)
	<u>16</u>	<u>3</u>

The reassurance balance in respect of all outwards reassurance is as follows:

	2000 £m	1999 £m
Outward reinsurance premiums	85	70
Reinsurers' share of claims	(42)	(40)
Reinsurers' share of change in technical provisions	(81)	(32)
Reinsurance commission and profit participation	(18)	(9)
	<u>(56)</u>	<u>(11)</u>

	2000 £m	1999 £m
(b) Gross new annualised periodic premiums – consolidated and company		
Ordinary business		
– non participating contracts	4	–
– participating contracts	1	1
– property-linked contracts	11	8
	<u>16</u>	<u>9</u>
Pension business		
– participating contracts	2	3
– property-linked contracts	35	39
	<u>37</u>	<u>42</u>
Total gross new annualised periodic premiums	<u>53</u>	<u>51</u>

(c) Bonuses – consolidated and company

Claims and the change in other technical provisions include bonuses paid and bonuses declared but not paid, respectively.

The charge incurred for bonuses is as follows:

	2000 £m	1999 £m
Participating contracts		
Terminal bonus paid	59	53
Interim bonus paid	2	2
Reversionary and other bonus added to technical provisions	49	45
	<u>110</u>	<u>100</u>
Linked contracts: bonus added to with-profit unit values	313	176
	<u>423</u>	<u>276</u>

(d) Balance sheet analysis – consolidated

	<i>Non-linked contracts £m</i>	<i>Linked contracts £m</i>	<i>Shareholders' funds £m</i>	<i>Fund for future appropriations £m</i>	<i>Eliminations £m</i>	<i>Total £m</i>
<b>2000</b>						
Investments	10,462	–	55	285	–	10,802
Assets held to cover linked liabilities	–	3,259	–	–	–	3,259
Reinsurers' share of technical provisions	494	16	–	–	–	510
Other assets	764	2	523	–	(470)	819
	<u>11,720</u>	<u>3,277</u>	<u>578</u>	<u>285</u>	<u>(470)</u>	<u>15,390</u>
Capital and reserves	–	–	575	–	–	575
Fund for future appropriations	–	–	–	285	–	285
Technical provisions	9,497	3,277	–	–	–	12,774
Other liabilities	2,223	–	3	–	(470)	1,756
	<u>11,720</u>	<u>3,277</u>	<u>578</u>	<u>285</u>	<u>(470)</u>	<u>15,390</u>
	<i>Non-linked contracts £m</i>	<i>Linked contracts £m</i>	<i>Shareholders' funds £m</i>	<i>Fund for future appropriations £m</i>	<i>Eliminations £m</i>	<i>Total £m</i>
<b>1999</b>						
Investments	7,693	–	216	1,489	–	9,398
Assets held to cover linked liabilities	–	3,358	–	–	–	3,358
Reinsurers' share of technical provisions	428	3	–	–	–	431
Other assets	317	–	191	–	(181)	327
	<u>8,438</u>	<u>3,361</u>	<u>407</u>	<u>1,489</u>	<u>(181)</u>	<u>13,514</u>
Capital and reserves	–	–	407	–	–	407
Fund for future appropriations	–	–	–	1,489	–	1,489
Technical provisions	6,628	3,357	–	–	–	9,985
Other liabilities	1,810	4	–	–	(181)	1,633
	<u>8,438</u>	<u>3,361</u>	<u>407</u>	<u>1,489</u>	<u>(181)</u>	<u>13,514</u>

Liabilities relating to with-profit units and to non-unit technical provisions on property-linked contracts and the related assets are included under non-linked contracts above since i) in the opinion of the directors, the risks borne by shareholders associated with the non-unit technical provisions are comparable; and ii) assets backing with-profit units are not hypothecated from other assets in the with-profit sub-fund.

At 31 December 2000, the total amount of assets representing the long term fund valued in accordance with Schedule 9A to the Companies Act 1985 was £12,800m (1999: £11,024m).



### 3. Investment activity account

	Consolidated 1999		Company 1999	
	2000	(restated)	2000	(restated)
	£m	£m	£m	£m
<b>Investment income</b>				
Income from land and buildings	23	17	23	17
Income from other investments	416	311	412	307
Gains on the realisation of investments	191	513	191	513
	<u>630</u>	<u>841</u>	<u>626</u>	<u>837</u>
<b>Investment expenses and charges</b>				
Investment management expenses				
– management fee:				
from Abbey National Asset Managers Limited	(6)	(5)	(3)	(3)
from Abbey National Treasury Services plc	–	(1)	–	(1)
– bank interest payable	(67)	(41)	(67)	(41)
– non bank interest payable	(62)	(26)	(62)	(26)
– other	–	(1)	–	(1)
	<u>(135)</u>	<u>(74)</u>	<u>(132)</u>	<u>(72)</u>
Unrealised gains on investments	–	749	–	750
Unrealised losses on investments	(715)	–	(715)	–
<b>Net investment return</b>	<u>(220)</u>	<u>1,516</u>	<u>(221)</u>	<u>1,515</u>

Income from other investments includes £8m (1999: £5m) of interest earned on deposits placed with Abbey National plc or subsidiaries thereof. It also includes £1m (1999: nil) of fees earned in connection with the lending of investments to Abbey National plc or subsidiaries thereof.

Non bank interest payable includes £21m (1999: £17m) in respect of the effect of the unwinding of the discount on pension annuity reassurance premiums payable.

### 4. Other technical income

#### (a) Transfer into long term business fund

On 1 January 1999, the long term business fund of Pegasus Assurance Limited was merged into that of the Company under a transfer made in accordance with Schedule 2C of the Insurance Companies Act 1982. There was no consideration passed in respect of this transfer. The value of the assets transferred on that date of £17m was in excess of the value of the long term business technical provisions assumed of £3m, resulting in an addition to the surplus in the long term business fund of £14m.

#### (b) Pension annuity reassurance

An unrealised loss of £15m (1999: gain £24m) arose in the year from a change to the discount rate applied to pension annuity reassurance premiums payable.

## 5. Claims incurred

	2000			1999		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
<b>Consolidated and company</b>						
Claims paid	954	(44)	910	706	(37)	669
Claims handling expenses	2	–	2	1	–	1
	956	(44)	912	707	(37)	670
Change in outstanding claims	4	2	6	(1)	(3)	(4)
Claims incurred	960	(42)	918	706	(40)	666
<b>Claims, excluding handling expenses, analysed by type of benefit</b>						
Death and critical illness claims	74	(10)	64	58	(10)	48
Maturities	226	–	226	203	(1)	202
Surrenders	616	–	616	409	–	409
Annuities	42	(32)	10	35	(29)	6
	958	(42)	916	705	(40)	665

## 6. Net operating expenses

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<b>Technical account</b>				
Acquisition costs incurred	155	137	155	137
Change in deferred acquisition costs	(21)	(24)	(21)	(24)
Administrative expenses	38	35	37	34
Reinsurance commission and profit participation	(18)	(9)	(18)	(9)
	154	139	153	138

Auditors' remuneration, exclusive of VAT, in respect of audit services amounted to £104,000 (1999: £91,000) consolidated and £98,000 (1999: £85,000) company. Fees in respect of non audit services amounted to £32,100 (1999: £61,000) consolidated and £28,300 (1999: £58,000) company.

Commissions payable in respect of direct insurance business amounted to £127m (1999: £111m). Reinsurance commission and profit participation include £18m (1999: £9m) of amounts receivable from Scottish Mutual Pensions Limited.

The Company and Group have no employees. All business administration services are provided to the Company and Group by Abbey National Financial and Investment Services plc. Management charges by that company included in the operating results amount to £66m (1999: £62m) consolidated and £65m (1999: £61m) company.

## 7. Directors' emoluments

The remuneration of directors included within management charges to the Group was:

	2000 £	1999 £
Aggregate emoluments (excluding pension contributions)	255,172	261,873
Benefits under long term incentive schemes	-	-
	<u>255,172</u>	<u>261,873</u>

	Number of directors	
	2000	1999
Directors to whom retirement benefits under a defined benefit scheme were accruing in respect of qualifying services	2	2
Directors exercising share options	2	5

The remuneration of individual directors was as follows:

	Salary/Fee £	Performance related benefits £	Other taxable benefits £	Pension contributions £	2000 Total £	1999 Total £
<b>Non-executive directors</b>						
J A Denholm	6,477	-	-	-	6,477	6,120
M Boleat	5,715	-	-	-	5,715	3,600
A R Devereux	5,715	-	-	-	5,715	5,400
Sir William Kerr Fraser (retired 31 December 1999)	-	-	-	-	-	12,960
J D Gallagher	5,715	-	-	-	5,715	5,400
I Harley (resigned 19 January 2000)	-	-	-	-	-	-
T Ingram	-	-	-	-	-	-
D G Jones (resigned 19 July 2000)	-	-	-	-	-	-
A H Pople	-	-	-	-	-	-
C G Toner (retired 22 April 1999)	-	-	-	-	-	-
C N Villiers (retired 31 December 2000)	-	-	-	-	-	-
<b>Executive directors</b>						
J W D Campbell	127,943	24,825	889	12,794	166,451	159,456
G R Pottinger	65,532	12,192	169	10,905	88,798	92,256
	<u>217,097</u>	<u>37,017</u>	<u>1,058</u>	<u>23,699</u>	<u>278,871</u>	<u>285,192</u>

The above amounts represent that proportion of total remuneration of the directors as is charged to the Group according to the proportion of their time spent on group affairs.

Directors who are executives of Abbey National plc receive no fees in respect of services as directors.

Details of share option schemes are given at note 24.

The value of the emoluments as charged to the Group, excluding pension contributions, of the highest paid director, J W D Campbell, was £153,657 (1999: £147,201). At 31 December 2000, the amount of his accrued pension was £84,941pa (1999: £78,296pa) and of his accrued lump sum was £146,562 (1999: £136,256); such amounts include benefits from contributions not charged to the Group.

## 8. Taxation

	Consolidated 1999		Company 1999	
	2000	(restated)	2000	(restated)
	£m	£m	£m	£m
<b>Technical account</b>				
The charge for tax is made up as follows:				
UK corporation tax	29	24	29	24
Overseas tax	4	2	4	2
Deferred tax charge/(credit)				
– on timing differences	(7)	(18)	(7)	(18)
– on unrealised gains on investments	(80)	115	(80)	115
Prior year adjustment – corporation tax	12	2	12	2
– deferred tax	(9)	(11)	(9)	(11)
	<u>(51)</u>	<u>114</u>	<u>(51)</u>	<u>114</u>
<b>Non-technical account</b>				
Tax attributable to balance on long term business technical account	(13)	2	(13)	2
	<u>(13)</u>	<u>2</u>	<u>(13)</u>	<u>2</u>

## 9. Land and buildings

### Consolidated and company

Land and buildings are valued annually by members of the Royal Institute of Chartered Surveyors. Valuations are undertaken by employees within the Abbey National plc group except that approximately one-third of properties are valued independently, rotationally, over a 3 year period.

	Freehold £m	Long leasehold £m	Total £m
Valuation at 1 January 2000	278	37	315
Additions	107	56	163
Disposals	(39)	–	(39)
Revaluation	1	(4)	(3)
Valuation at 31 December 2000	<u>347</u>	<u>89</u>	<u>436</u>
Of which, owner occupied			
Valuation at 1 January 2000	33	–	33
Disposals	(33)	–	(33)
Valuation at 31 December 2000	<u>–</u>	<u>–</u>	<u>–</u>
Historical cost of properties at 31 December 2000	<u>342</u>	<u>88</u>	<u>430</u>
Historical cost of properties at 31 December 1999	<u>270</u>	<u>31</u>	<u>301</u>

The cost of freehold land and buildings includes £8m (1999: £nil) of plant and machinery held under finance leases.

## 10. Non-property investments

### (a) Shares in group undertakings

	<i>£m</i>
Cost at 1 January and 31 December 2000	2
Valuation at 31 December 2000	6
Valuation at 31 December 1999	5

Scottish Mutual PEP and ISA Managers Limited is a wholly owned subsidiary undertaking held out with the long term fund. It is registered in England, has two classes of share capital (ordinary and deferred) and is preparing to undertake the management of Personal Equity Plans and Individual Savings Accounts.

The principal subsidiary undertakings in the long term fund are stated below. Both are registered in Scotland, have share capital consisting solely of one class, and are wholly owned.

Subsidiary	Nature of business
Scottish Mutual Pension Funds Investment Limited	Acts as a trustee
Scottish Mutual Investment Managers Limited	Management of unit trusts

### (b) Other financial investments – consolidated

	<i>Current value</i>		<i>Historical cost</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Shares and other variable-yield securities and units in unit trusts	6,455	6,955	5,094	4,882
Debt securities and other fixed income securities	2,985	1,714	2,884	1,703
Other loans				
– Loans secured by insurance policies	9	8	9	8
– Unsecured loans	1	2	1	2
– Unsecured commercial paper	579	44	579	44
Time deposits with credit institutions	337	360	337	360
	<u>10,366</u>	<u>9,083</u>	<u>8,904</u>	<u>6,999</u>
Shares and other variable-yield securities and units in unit trusts comprise:				
– Listed investments	4,154	5,039		
– Unit trusts	2,079	1,759		
– Unlisted investments	222	157		
	<u>6,455</u>	<u>6,955</u>		

Debt securities and other fixed income securities include £2,984m (1999: £1,714m) of listed securities.

Time deposits with credit institutions include deposits with Abbey National Treasury Services plc of £28m (1999: £17m).

(c) Other financial investments – company

	<i>Current value</i>		<i>Historical cost</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Shares and other variable-yield securities and units				
in unit trusts	6,455	6,955	5,094	4,882
Debt securities and other fixed income securities	2,984	1,713	2,883	1,702
Other loans				
– Loans secured by insurance policies	9	8	9	8
– Unsecured loans	1	2	1	2
– Unsecured commercial paper	579	44	579	44
Time deposits with credit institutions	337	360	337	360
	<u>10,365</u>	<u>9,082</u>	<u>8,903</u>	<u>6,998</u>
Shares and other variable-yield securities and units				
in unit trusts comprise:				
– Listed investments	4,154	5,039		
– Unit trusts	2,079	1,759		
– Unlisted investments	222	157		
	<u>6,455</u>	<u>6,955</u>		

Debt securities and other fixed income securities include £2,983m (1999: £1,713m) of listed securities.

Time deposits with credit institutions include deposits with Abbey National Treasury Services plc of £28m (1999: £17m).

(d) Unit trust holdings (including those held within linked assets)

£2,717m (1999: £2,707m) is invested in unit trusts managed by Scottish Mutual Investment Managers Limited. In addition, £787m (1999: £791m) is invested in funds managed by other subsidiaries of Abbey National plc.

£130m (1999: nil) is invested in an open-ended investment company that is partly managed by Abbey National Asset Managers Limited.

(e) Related party option contracts

At 31 December 2000, the Company had entered option contracts, with nominal values totalling £400m, with Abbey National Treasury Services plc under which that company could require Scottish Mutual Assurance plc to pay the value of out-performance of the FTSE 100 index over certain levels on specified dates, as follows:

<i>Date</i>	<i>Strike Level</i>
11.01.01	6451
23.01.01	6463
01.02.01	6477
08.02.01	6484
16.02.01	6500

No premium was receivable by the Company for the sale of these options.

At 31 December 2000, the Company had entered option contracts, with nominal values totalling £400m, with Abbey National Treasury Services plc under which the Company could require Abbey National Treasury Services plc to pay the value of under-performance of the FTSE 100 index below the level of 5850 on the five dates noted above. No premium was payable by the Company for the purchase of these options.

At 31 December 2000, the value of the options sold was £4m; the value of the options purchased was £3m.

#### 11. Assets held to cover linked liabilities

	<i>Current value</i>		<i>Historical cost</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Consolidated and company</b>				
Assets held to cover linked liabilities	3,259	3,358	2,989	2,985

Assets held to cover linked liabilities comprise investments, cash at bank, accrued income, investments purchased or sold for subsequent settlement and taxation balances.

Included here is £118m (1999: £136m) of monies on deposit with Abbey National plc.

#### 12. Other debtors

	<i>Consolidated</i>		<i>Company</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Investments sold for subsequent settlement	16	1	16	1
Sundry debtors	14	12	13	9
Due from fellow subsidiary undertakings	7	10	7	9
Due from subsidiary undertakings	–	–	1	3
	37	23	37	22

Sundry debtors at 31 December 2000 include £11m (1999:£6m) due from Scottish Mutual International Investment Fund plc, a related company.

#### 13. Tangible assets

	<i>Fixtures and fittings</i>
	<i>£m</i>
<b>Consolidated and company</b>	
<b>Cost</b>	
At 1 January 2000	14
Additions	–
Disposals	(9)
At 31 December 2000	5
<b>Depreciation</b>	
At 1 January 2000	8
Provided in the year	1
On disposals	(5)
At 31 December 2000	4
<b>Net book value</b>	
At 31 December 2000	1
At 1 January 2000	6

The charge for depreciation for the year ended 31 December 1999 was £2m.

#### 14. Cash at bank and in hand

Included here is £9m (1999: £nil) consolidated and £4m (1999: £nil) company held in accounts with Abbey National plc, which provides certain banking services to the Company.

#### 15. Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium account £m	Profit and loss account £m	Total Shareholders' funds £m
Consolidated and company				
Balance at 1 January 2000	288	9	110	407
Loss for the year after taxation	–	–	(32)	(32)
Share capital issued	200	–	–	200
Balance at 31 December 2000	488	9	78	575

#### 16. Share capital

	2000 £m	1999 £m
Consolidated and company		
Authorised:		
10,000 (1999: 5,010) million ordinary shares of 10p each	1,000	501
Allotted, called up and fully paid:		
4,875 (1999: 2,875) million ordinary shares of 10p each	488	288

During the year, the following ordinary shares of 10p each were allotted, called up and fully paid to provide additional working capital to support the company's continued growth:

Date	Number
1 December 2000	2,000,000,000

#### 17. Fund for future appropriations

	£m
Consolidated and company	
Balance at 1 January 2000	1,489
Movement to the long term business technical account	(1,204)
Balance at 31 December 2000	285



## 18. Technical provisions

	Long term business provision £m	Technical provision for linked liabilities £m	Claims outstanding £m
<b>Consolidated and company</b>			
<b>Gross amount</b>			
Balance at 1 January 2000	6,597	3,357	31
Movement from/(to) the long term business technical account	2,865	(80)	4
Balance at 31 December 2000	9,462	3,277	35
<b>Reinsurers' share</b>			
Balance at 1 January 2000	425	3	3
Movement to/(from) the long term business technical account	68	13	(2)
Balance at 31 December 2000	493	16	1
<b>Net technical provisions</b>			
Balance at 1 January 2000	6,172	3,354	28
Net movement from/(to) the long term business technical account	2,797	(93)	6
Balance at 31 December 2000	8,969	3,261	34

The principal assumptions underlying the calculation of the long term business provision are provided below.

			With profits		Rate of interest %	
			2000	1999	Without profits	
					2000	1999
	With profits	Mortality table Without profits				
<b>Life policies</b>						
- male smokers	A1967-70 Ultimate less 1 year	130% AM92 Ultimate	2.50	2.75	3	3.25
- female smokers	A1967-70 Ultimate less 4 years	130% AF92 Ultimate	2.50	2.75	3	3.25
- male non-smokers	A1967-70 Ultimate less 4 years	100% AM92 Ultimate	2.50	2.75	3	3.25
- female non-smokers	A1967-70 Ultimate less 7 years	100% AF92 Ultimate	2.50	2.75	3	3.25
<b>Pension policies</b>						
- before pension	A1967-70 Ultimate less 4 years	130% AM92/AF92 Ultimate	3.25	3.5	4	4.25
- during pension	100% PMA92/PFA92 (c=2010)	100% PMA92/PFA92(c=2010)	4.12	4.75	4.12	4.75
<b>Group pension policies</b>						
- before pension	A1967-70 Ultimate less 4 years	A 67/70 Ultimate less 4 years	3.25	3.5	4	4.25
- during pension	100% PMA92/PFA92 (c=2010)	100% PMA 92/PFA92(c=2010)	4.12	4.75	4.12	4.75

The rate of interest assumptions used at 31 December 2000 were changed from those used at 31 December 1999 to reflect changes during 2000 in investment returns on assets supporting the provisions.

The technical provision for linked liabilities includes £561m (1999: £642m) in respect of managed fund business. Assets of this value are included in assets held to cover linked liabilities.

## 19. Provisions for other risks and charges

	<i>Provision for deferred taxation</i>
	<i>£m</i>
Consolidated and company	
At 1 January 2000 (restated)	190
Transfer to the technical account	(96)
Transfer from assets held to cover linked liabilities	7
At 31 December 2000	<u>101</u>

The amounts provided for deferred taxation and the amount unprovided are as follows:

	2000		1999 (restated)	
	<i>Provided</i>	<i>Unprovided</i>	<i>Provided</i>	<i>Unprovided</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
On unrealised net appreciation on investments	132	–	219	–
Timing differences on income and expenses	(31)	–	(29)	–
	<u>101</u>	<u>–</u>	<u>190</u>	<u>–</u>

## 20. Deposits received from reinsurers

### Consolidated and company

Reassurance premiums payable in connection with the reassurance of pension annuity business are payable by instalments as follows:

	<i>Discounted value</i>	
	<i>2000</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>
Instalments due within one year	27	32
Instalments due between 1 – 5 years	124	110
Instalments due after 5 years	336	284
	<u>487</u>	<u>426</u>

  

	<i>Undiscounted value</i>
	<i>£m</i>
Balance at 1 January 2000	825
Instalments paid in the year	(32)
Additional premium added 30 September 2000	113
Balance at 31 December 2000	<u>906</u>

There is no interest payable under the reassurance contract.

## 21. Creditors

All creditors are payable within one year except as stated below.  
Amounts owed to credit institutions are payable as follows:

	2000 £m	1999 £m
Consolidated and company		
Payable:		
– Within 1 year	311	–
– Between 1 – 5 years	669	835
– After 5 years	64	58
	<u>1,044</u>	<u>893</u>

Amounts owed to credit institutions represent sums deposited back to the Company by such institutions in order to reduce the counterparty risk to the Company on particular assets held to back certain policyholder benefits. Interest is payable on the amounts owed based on the 3 month LIBOR (London Interbank Offered Rate) rate.

Other creditors including taxation and social security comprise

	Consolidated		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Taxation	16	5	16	4
Investments purchased for subsequent settlement	6	11	6	11
Due to fellow subsidiary undertakings	10	7	10	7
Obligations under finance leases	7	–	7	–
Other	14	55	14	55
	<u>53</u>	<u>78</u>	<u>53</u>	<u>77</u>

Amounts due to companies in the Abbey National plc group carry no fixed terms of repayment and are non-interest bearing.

Obligations under finance leases are payable as follows:

	2000 £m	1999 £m
Consolidated and company		
Payable:		
– Within 1 year	–	–
– Between 1 – 5 years	7	–
	<u>7</u>	<u>–</u>

## 22. Commitments on securities

There are outstanding calls, uncalled liabilities and underwriting commitments of £18m (1999: £nil) on certain securities held.

## 23. Other commitments

There were no capital commitments at 31 December 2000 (1999: nil).

## 24. Directors' and officers' interests

### Staff House Purchase Scheme

Abbey National plc has made loans to employees under the Company Staff House Purchase Scheme which the Company has guaranteed. The amounts guaranteed in respect of loans to directors for which the Company may become liable were as undernoted.

	<i>At 1 January 2000</i>	<i>At 31 December 2000</i>
<b>Consolidated and company</b>	<b>£</b>	<b>£</b>
J W D Campbell	30,000	30,000

In respect of 2 officers the aggregate amount of Staff House Purchase Scheme guarantees given by the Company for loans at the end of the year was £77,000 (1999: £83,000).

The beneficial interests of those directors who are also directors of Abbey National plc are disclosed in the accounts of that company.

The beneficial interests of those other directors holding office at the end of the financial year and of their immediate families in the ordinary shares of 10 pence each in Abbey National plc are shown below:

	<i>Shares</i>		<i>Options</i>			<i>Exercise</i>	<i>Date from</i>		
	<i>At</i>	<i>At</i>	<i>At</i>	<i>Granted/</i>	<i>At</i>	<i>price</i>	<i>which</i>	<i>Expiry date</i>	<i>Notes</i>
	<i>1 January</i>	<i>31 December</i>	<i>1 January</i>	<i>(Cancelled)</i>	<i>31 December</i>	<i>£</i>	<i>exercisable</i>		
	<i>2000</i>	<i>2000</i>	<i>2000</i>		<i>2000</i>				
J W D Campbell	22,045	23,575							
			150		150	5.91	9.9.99	8.9.06	All Employee
			13,365		13,365	7.22	24.3.00	23.3.07	Executive
			10,555		10,555	11.70	13.3.01	12.3.08	Executive
			9,877		9,877	13.06	12.3.02	11.3.09	Executive
				11,596	11,596	6.46	9.3.03	9.3.10	Executive
				7,899	7,899	7.48	11.3.03	10.8.10	Executive
	22,045	23,575	33,947	19,495	53,442				
I A Denholm	3,000	3,000							
G R Pottinger	21,776	25,176							
			17,000		17,000	4.83	10.4.98	9.4.05	Executive
			150		150	5.91	9.9.99	8.9.06	All Employee
			150		150	5.91	9.9.99	8.9.06	All Employee
			18,005		18,005	7.22	24.3.00	23.3.07	Executive
			18,847		18,847	11.70	13.3.01	12.3.08	Executive
			150		150	11.54	1.4.01	31.3.08	All Employee
			12,633		12,633	13.06	12.3.02	11.3.09	Executive
			3,412	(3,412)	-	9.89	1.4.04	30.9.04	Sharesave
				10,126	10,126	6.46	9.3.03	9.3.10	Executive
				6,578	6,578	5.13	1.4.05	30.9.05	Sharesave
				12,433	12,433	7.48	11.3.03	10.8.10	Executive
	21,776	25,176	70,347	25,725	96,072				

The options refer to those granted under Abbey National's Executive, All Employee and Sharesave schemes. Shares and options shown under the headings 'At 1 January 2000' refer to shares and options held at 1 January 2000, or at the date of appointment if later.

Options shown under the heading 'Granted/Cancelled' refer to options granted or cancelled during the year or since appointment if later.

No options lapsed.

The market price of the shares at 31 December 2000 was 1219p and the range during 2000 was 622p to 1219p.

Certain directors hold life assurance or pension policies issued by the Company. The aggregate amount of premiums paid by those directors in respect of such policies during 2000 was £16,910 (1999: £13,426).

## 25. Contingent liabilities

- (a) The Company is required under the Policyholders Protection Act to contribute towards any levies raised by the Policyholders Protection Board on long term insurance business companies for the purpose of assisting policyholders of UK long term business insurers that may become insolvent. The amount collected may vary, but cannot in any one year exceed 1% of premium income, in respect of policies taken out after 31 December 1974, (excluding reinsurance premiums receivable) of the year on which the levy is based.

A levy of nil in respect of long term insurance business was raised on the Company by that Board during the period covered by these accounts.

- (b) The Company and its subsidiaries are registered with HM Customs and Excise as members of a group for VAT purposes and, as a result, they are jointly and severally liable on a continuing basis for amounts owing by any other member of that group in respect of unpaid VAT. Any liability in this respect is considered to be remote. At 31 December 2000, the group liability was £3m (1999: £nil).
- (c) The Company may be required to pay compensation to policyholders who were advised by agents of the Company in the purchase of pension products and may also be required to contribute under the Investors' Compensation Scheme to compensate policyholders advised independently in the purchase of pension products. The uncertainties surrounding these issues are such that the liabilities are currently unquantifiable as regards the Investors' Compensation Scheme. A provision has been made within technical provisions in respect of advice given by agents of the Company as follows:

	<i>£m</i>
At 1 January 2000	2
Transfer from the technical account	1
Utilised in the year	(1)
At 31 December 2000	2

It is expected that this remaining expenditure will be incurred within two years of the balance sheet date.

- (d) The Company has guaranteed the recoverability of certain mortgage advances made by its ultimate parent company and by a former related company of The Scottish Mutual Assurance Society. Amounts that may be required to be paid in this connection are unquantifiable but are considered not to be material.

## 26. Immediate and ultimate parent company

The Company's immediate parent company is Abbey National SMA Holdings Limited. The Company's ultimate parent company and controlling party is Abbey National plc which is registered in England. The only group in which the results of the Company are consolidated is headed by Abbey National plc. The consolidated accounts of Abbey National plc are available to the public and may be obtained from Abbey National plc, Abbey House, Baker Street, London, NW1 6XL or [www.abbeynational.plc.uk](http://www.abbeynational.plc.uk)

## Auditors' report

### *Report of the auditors to the members of Scottish Mutual Assurance plc*

We have audited the financial statements on pages 12 to 31<sup>(1)</sup> which have been prepared under the accounting policies set out on pages 16 to 17<sup>(2)</sup>.

### Respective responsibilities of directors and auditors

As described on page 10<sup>(3)</sup>, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the Company and Group as at 31 December 2000 and of the Company's and Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

Lomond House, 9 George Square, Glasgow, G2 1QQ

12 February 2001

#### Notes:

- (1) The reference to pages 12 to 31 is to pages 12 to 31 of the annual report and accounts of the Issuer for the year ended 31 December 2000 and corresponds to pages 29 to 51 of this Offering Circular.
- (2) The reference to pages 16 to 17 is to pages 16 to 17 of the annual report and accounts of the Issuer for the year ended 31 December 2000 and corresponds to pages 32 to 35 of this Offering Circular.
- (3) The reference to page 10 is to page 10 of the annual report and accounts of the Issuer for the year ended 31 December 2000, which page is not reproduced in this Offering Circular.

## UNITED KINGDOM TAXATION

*The comments below are of a general nature based on the Issuer's understanding of current United Kingdom law and practice. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons. They deal only with the question of whether payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax and do not deal with other United Kingdom tax consequences that might arise from holding Notes.*

1. The Notes will constitute "quoted eurobonds" within the meaning of section 349(4) of the Income and Corporation Taxes Act 1988 (the "Act") while the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Act (the Luxembourg Stock Exchange is recognised for these purposes). Accordingly, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

If the Notes cease to be listed on a recognised stock exchange interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

2. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent.

Noteholders should note that the provisions relating to additional amounts referred to in "Terms and Conditions – 8 Taxation" above would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes ceased to be listed), Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

### **Proposed EU Directive on the Taxation of Savings Income**

3. The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Members States to opt instead for a withholding system for a transitional period in relation to such payments.

Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek independent advice.

## SUBSCRIPTION AND SALE

Barclays Bank PLC (the "Manager") has, pursuant to a Subscription Agreement dated 20 July 2001 (the "Subscription Agreement"), agreed with the Issuer to subscribe and pay for the Notes at 99.259 per cent. of their principal amount, less a combined selling, management and underwriting commission of 0.625 per cent. of the principal amount of the Notes. The Issuer has also agreed to reimburse the Manager in connection with certain expenses of the issue. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The Notes 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, sold or delivered 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 Notes 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 United States 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 and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (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 issue date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes 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 the Notes within the United States by any dealer (that is not participating in the offer) may violate the registration requirements of the Securities Act.

The Manager has represented and agreed that:

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

No action has been or will be taken in any country or any jurisdiction by the Manager or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. The Manager has agreed to comply with all applicable laws and regulations and directives in each jurisdiction in which it acquires, offers, sells or delivers the Notes or has in its possession or distributes the Offering Circular or any such other material relating to the Notes, in all cases at its own expense. The Manager has also undertaken to ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions. The Issuer will have no responsibility for, and



the Manager has agreed to obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Manager has not been authorised to make any representation or use any information in connection with the issue, subscription and sale of the Notes other than as contained in this Offering Circular or any amendment or supplement to it.

## GENERAL INFORMATION

- (1) The Issuer was incorporated in Scotland on 4 September 1991 with registered number 133846.
- (2) Under current regulatory requirements, in order that the net proceeds of the Notes may be treated by The Financial Services Authority as capital, no repayment of the Notes and no purchase of the Notes by the Issuer may be made without the consent of The Financial Services Authority.
- (3) In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the Memorandum and Articles of Association of the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*") where such documents may be examined and copies obtained.
- (4) Save as disclosed herein, there has been no material adverse change in the financial position of the Issuer since 31 December 2000.
- (5) The Issuer has not been involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Issuer is aware, is any such litigation or arbitration proceedings pending or threatened.
- (6) The Notes and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of any Note or Coupon.
- (7) The consolidated accounts of the Issuer for the year ended 31 December 1998 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by PricewaterhouseCoopers (formerly Coopers & Lybrand), Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge, London SE1 9SY. The consolidated accounts of the Issuer for the years ended 31 December 1999 and 2000 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by Deloitte & Touche, Chartered Accountants and Registered Auditors of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.
- (8) The consolidated accounts of the Issuer for the years ended 31 December 1999 and 31 December 2000 contained in this document do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Companies Act"). Statutory accounts for such years have been delivered to the Registrar of Companies in Scotland. The Issuer's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.
- (9) The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 23 May 2001 and resolutions of a duly authorised committee of the Board of Directors passed on 11 July 2001.
- (10) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the issue is XS0133173137 and the Common Code is 13317313.
- (11) So long as any of the Notes remains outstanding, copies of the latest annual report and the latest consolidated and non-consolidated accounts of the Issuer, together with copies of the Trust Deed (incorporating the form of the Notes) and the Paying Agency Agreement, will be available at the specified office for the time being of each of the Paying Agents. The Issuer does not publish interim accounts.

REGISTERED AND HEAD OFFICE OF THE ISSUER

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