



CLERICAL MEDICAL

CLERICAL MEDICAL FINANCE plc

(incorporated with limited liability in England and Wales with registered number 3850542)

€750,000,000

4.25 per cent. Perpetual Fixed/Floating Rate Reset Subordinated Guaranteed Notes

guaranteed on a subordinated basis by

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

(incorporated with limited liability in England and Wales with registered number 3196171)

The issue price of the €750,000,000 4.25 per cent. Perpetual Fixed/Floating Rate Reset Subordinated Guaranteed Notes (the “Notes”) of Clerical Medical Finance plc (the “Issuer”) is 99.187 per cent. of their principal amount.

The Notes will bear interest (i) from (and including) 24 June 2005 (the “Issue Date”) to (but excluding) 24 June 2015 at the rate of 4.25 per cent. per annum payable annually in arrear on 24 June each year commencing on 24 June 2006 and ending on 24 June 2015 and (ii) from (and including) 24 June 2015 at a rate of 2 per cent. per annum above the euro interbank offered rate for three month euro deposits payable quarterly in arrear on 24 September, 24 December, 24 March and 24 June of each year commencing on 24 September 2015. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the United Kingdom to the extent described under “*Terms and Conditions of the Notes - Taxation*”.

Clerical Medical Investment Group Limited (the “Guarantor” or “CMIG”) will guarantee on a subordinated basis the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes, subject to its ability to defer payments of interest. In the event of the bankruptcy, dissolution or winding-up of the Issuer or, as the case may be, the Guarantor, the payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall be subordinated to the claims of all Senior Creditors of the Issuer or, as the case may be, the Guarantor - see “*Terms and Conditions of the Notes*”.

All payments in respect of the Notes and the Coupons relating to them or to the Guarantee shall be conditional upon the Issuer or the Guarantor, as the case may be, being solvent at the time for payment, and no amount shall be payable in respect of the Notes and the Coupons relating to them or the Guarantee unless and until such time as the Issuer or the Guarantor, as the case may be, could make such payments and still be solvent thereafter - see “*Terms and Conditions of the Notes*”.

The Issuer (or, as the case may be, the Guarantor) may, except in certain circumstances, elect to defer any payment of interest on the Notes which would otherwise be payable on an Interest Payment Date by giving notice of such election to the Noteholders and to the Trustee not less than 14 days prior to the relevant Interest Payment Date. Such deferral of any interest payment on any Interest Payment Date will not constitute a default by the Issuer (or the Guarantor) and will not give Noteholders or the Trustee any right to accelerate the Notes. Certain restrictions apply following such deferral - see “*Terms and Conditions of the Notes*”.

The Notes have no stated maturity date. The Notes are subject to redemption in whole but not in part at their principal amount or, in certain circumstances, at a make-whole amount, at the option of the Issuer having given at least six months’ prior written notice to, and received no objection from the Financial Services Authority (the “FSA”) (or such shorter notice period as the FSA may accept and so long as such notice is required to be given) (i) at any time before 24 June 2015 and on 24 June 2015 or any Interest Payment Dates thereafter in the event of certain changes affecting taxation in the United Kingdom or the regulatory treatment relating to the Notes and (ii) on 24 June 2015 and on any Interest Payment Date thereafter. See “*Terms and Conditions of the Notes - Redemption and Purchase*”.

Applications have been made for the Notes to be admitted to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the “FSMA”), the “UK Listing Authority”) and to trading on the London Stock Exchange plc (the “London Stock Exchange”). This Offering Circular comprises listing particulars issued in compliance with the listing rules made under section 74 of the FSMA by the UK Listing Authority. A copy of this Offering Circular has been delivered to the Registrar of Companies in England and Wales as required by section 83 of the FSMA.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the “Securities Act”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in “*Subscription and Sale*”) in accordance with Regulation S under the Securities Act (“*Regulation S*”), 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes are expected to be rated upon issue A+ by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc, A+ by Fitch Ratings Limited and A1 by Moody’s Investors Services Limited. 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 any one or all of the rating agencies. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

The Notes will be in bearer form and in the denomination of €1,000 each. The Notes will initially be in the form of a temporary global note (the “*Temporary Global Note*”), without interest coupons, which will be deposited on or around 24 June 2005 (the “*Closing Date*”) with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“*Euroclear*”) and Clearstream Banking, société anonyme, Luxembourg (“*Clearstream, Luxembourg*”). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the “*Permanent Global Note*”), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of €1,000 each and with interest coupons attached. See “*Summary of Provisions Relating to the Notes in Global Form*”.

Joint Lead Managers

JPMorgan Cazenove

Merrill Lynch International

Co-Lead Manager

Dresdner Kleinwort Wasserstein

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular and to the best of the knowledge and belief of each of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case) 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.

Each of the Issuer and the Guarantor has confirmed to the Managers named under “*Subscription and Sale*” below (the “**Managers**”) that this Offering Circular contains all information regarding the Issuer, the Guarantor and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see “*Subscription and Sale*”.

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

In this Offering Circular, unless otherwise specified, references to “**€**”, “**EUR**” or “**Euro**” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. References to “**billions**” are to thousands of millions.

Certain figures included in this Offering Circular may have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, J.P. Morgan Securities Ltd. (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The €750,000,000 4.25 per cent. Perpetual Fixed/Floating Rate Reset Subordinated Guaranteed Notes (the “**Notes**”) of Clerical Medical Finance plc (the “**Issuer**”) are subject to, and have the benefit of, a trust deed dated 24 June 2005 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Clerical Medical Investment Group Limited (the “**Guarantor**”) and The Law Debenture Trust Corporation p.l.c as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 24 June 2005 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Guarantor, Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Definitions

As used herein:

“**Applicable Regulatory Capital Requirements**” means any requirements contained in Capital Regulations.

“**Arrears of Interest**” has the meaning given in Condition 5(c) (*Deferral of Payments - Arrears of Interest*).

“**Assets**” means the unconsolidated gross assets of the Issuer or the Guarantor, as the case may be, as shown in the latest published audited balance sheet of the Issuer or the Guarantor, as the case may be, but adjusted for subsequent events, all in such manner as the directors of the Issuer or the Guarantor, as the case may be, may determine.

“**business day**” has the meaning given in Condition 7(f) (*Payments - Payments on business days*).

“**Call Settlement Date**” has the meaning given in Condition 6(c) (*Redemption and Purchase - Redemption at the Option of the Issuer*).

A “**Capital Disqualification Event**” shall be deemed to occur:

- (a) if the Notes would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as capital resources satisfying the Regulatory Capital Requirements applicable to the Issuer or to all or any part of the Group (which part includes the Issuer and at least one other member of the Group) as a result of any change to the Capital Regulations or the application or official interpretation thereof at any time; or
- (b) if the Notes would no longer be eligible to qualify (save as aforesaid) for inclusion in the Upper Tier 2 Capital of the Issuer on a solo basis or of the Group on a consolidated basis; or
- (c) if the Issuer so elects and if, at any time the Issuer has on-lent proceeds from the Notes to the Guarantor on terms analogous to the terms of the Notes, such on-loan would no longer be

eligible to qualify (save as aforesaid) for inclusion in the Upper Tier 2 Capital of the Guarantor by reason only of the terms of the Notes,

and, in each case, such ineligibility cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it.

“**Capital Regulations**” means the rules and regulations of any Relevant Supervisory Authority that require the Issuer, the Guarantor or any of the EEA Regulated Subsidiaries to meet the Regulatory Capital Requirements.

“**Coupon Sheet**” has the meaning given in Condition 7(i) (*Payments - Exchange of Talons*).

“**Day Count Fraction**” has the meaning given in Condition 4(a) (*Interest - Fixed Interest Period*).

“**Debt Service**” means, in respect of each Note, all payments of principal of and interest on such Note.

“**Deferral Notice**” has the meaning given in Condition 5(a) (*Deferral of Payments - Optional Deferral of Interest*).

“**EEA Regulated Subsidiary**” means any entity engaged in the insurance business and regulated as such by a member state of the European Economic Area in which the Issuer or the Guarantor, directly or indirectly, holds 20 per cent. or more of the voting rights or capital.

“**European Economic Area**” or “**EEA**” means the countries comprising the European Union together with Norway, Liechtenstein and Iceland.

“**Euro zone**” means the region comprised of member states of the European Union which adopt the Euro in accordance with the Treaty establishing the European Community, as amended.

“**Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders (whether originally convened or resumed following an adjournment) duly convened and held in accordance with the provisions of the Trust Deed by a majority of not less than three quarters of the votes cast.

“**First Call Settlement Date**” means 24 June 2015.

“**Fixed Interest Payment Date**” has the meaning given in Condition 4(a) (*Interest - Fixed Interest Period*).

“**Fixed Interest Period**” has the meaning given in Condition 4(a) (*Interest - Fixed Interest Period*).

“**Fixed Rate of Interest**” has the meaning given in Condition 4(a) (*Interest - Fixed Interest Period*).

“**Floating Interest Amount**” has the meaning given in Condition 4(d) (*Interest - Calculation of Interest Amount*).

“**Floating Interest Determination Date**” has the meaning given in Condition 4(c) (*Interest - Floating Rate of Interest*).

“**Floating Interest Payment Date**” has the meaning given in Condition 4(b) (*Interest - Floating Interest Period*).

“**Floating Interest Period**” has the meaning given in Condition 4(b) (*Interest - Floating Interest Period*).

“**Floating Rate of Interest**” has the meaning given in Condition 4(c) (*Interest - Floating Rate of Interest*).

“**FSA**” means 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).

“**Group**” means the Issuer, the Guarantor and their respective Subsidiaries.

“**Guarantee**” means the guarantee of the Notes given by the Guarantor in the Trust Deed.

“**Interest Payment Date**” and “**Interest Payment Dates**” have the meaning given in Condition 4(b) (*Interest - Floating Interest Period*).

“**Interest Period**” has the meaning given in Condition 4(b) (*Interest - Floating Interest Period*).

“**Issue Date**” has the meaning given in Condition 4(a) (*Interest - Fixed Interest Period*).

“**Liabilities**” means the unconsolidated gross liabilities of the Issuer or the Guarantor, as the case may be, as shown in the latest published audited balance sheet of the Issuer or the Guarantor, as the case may be, but adjusted for contingent liabilities and for subsequent events, all in such manner as the directors of the Issuer or the Guarantor, as the case may be, may determine.

“**London Stock Exchange**” means London Stock Exchange plc.

“**Make-Whole Premium**” means, with respect to each Note, the excess, if any, of (i) the present value of the future Debt Service on the Note (assuming for this purpose that the Notes are to be redeemed at their principal amount on the First Call Settlement Date) discounted at 0.5 per cent. above the then current yield on the 3.25 per cent. German Bundesobligationen due July 2015 (or, if such security is no longer in issue, such other German Bundesobligationen in issue on or about the Reference Date as the Principal Paying Agent may, with the advice of the Reference Euro Market Makers, determine to be appropriate by way of substitution for the 3.25 per cent. German Bundesobligationen due July 2015) over (ii) the outstanding principal amount of such Note.

“**Make-Whole Redemption Price**” means, in respect of each Note, a price equal to the sum of (a) the principal amount of such Note and (b) the Make-Whole Premium.

“**Optional Deferred Interest Payment Date**” has the meaning given in Condition 5(c) (*Deferral of Payments - Arrears of Interest*).

“**PRU**” means the “Integrated Prudential Sourcebook” that forms part of the rules of the FSA relating to the regulation of insurers and their groups and any equivalent rules or regulatory provisions from time to time replacing it or the rules therein.

“**Redemption Date**” means any date fixed for redemption pursuant to Condition 6 (*Redemption and Purchase*).

“**Redemption Price**” means the outstanding principal amount of the Notes.

“**Reference Date**” means the third business day prior to the Redemption Date.

“**Reference Euro Market Makers**” means three brokers or market makers of European government bonds selected by the Principal Paying Agent and approved for this purpose by the Trustee or such other three persons operating in the European government bonds market as are selected by the Principal Paying Agent in consultation with the Issuer and approved for this purpose by the Trustee.

“**Regulatory Capital Requirements**” means any applicable minimum or notional margin of solvency or minimum capital or capital requirement specified for insurance companies, insurance holding companies or financial groups by any Relevant Supervisory Authority.

“**Relevant Coupons**” has the meaning given in Condition 7(d) (*Payments - Deduction for unmatured Coupons*).

“**Relevant Date**” has the meaning given in Condition 8 (*Taxation*).

“**Relevant Supervisory Authority**” means any regulator having jurisdiction over the Issuer, the Guarantor or any of the EEA Regulated Subsidiaries from time to time.

“**Reserved Matter**” has the meaning given in Condition 14(a) (*Meetings of Noteholders; Modification and Waiver; Substitution - Meetings of Noteholders*).

“**Resumption Date**” has the meaning given in Condition 5(c) (*Deferral of Payments - Arrears of Interest*).

“**Senior Creditors**” means all creditors of the Issuer or the Guarantor, as the case may be, (including, in the case of the Guarantor, all policyholders in their capacity as such (for the avoidance of doubt, the claims of policyholders shall include all amounts to which they would be entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have)) who are (a) unsubordinated creditors of the Issuer or the Guarantor, as the case may be, or (b) subordinated creditors of the Issuer or the Guarantor, as the case may be, other than those whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders.

“**Subsidiary**” means a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

“**Talon**” has the meaning given in Condition 2 (*Form, Denomination and Title*).

“**TARGET Settlement Day**” means a day on which the TARGET System is open.

“**TARGET System**” has the meaning given in Condition 7(a) (*Payments - Principal*).

“**Upper Tier 2 Capital**” has the meaning given to it in PRU or which is otherwise treated as upper tier 2 capital by the FSA.

2. Form, Denomination and Title

The Notes are serially numbered and in bearer form in denominations of €1,000 with Coupons and talons (each, a “**Talon**”) for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

3. Status and Guarantee

- (a) *General*: The Notes and Coupons relating to them and the obligations of the Guarantor under the Guarantee constitute direct, unsecured and (save as to subordination) unconditional obligations of the Issuer and the Guarantor and rank *pari passu* and without any preference among themselves. In the event of the bankruptcy, dissolution or winding-up of the Issuer, or as the case may be, the Guarantor, the payment obligations of the Issuer under the Notes and Coupons relating to them and of the Guarantor under the Guarantee, shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, or as the case may be, the Guarantor, but shall rank at least *pari passu* with all other undated or perpetual obligations of the Issuer and the Guarantor respectively that are not expressed by their terms to rank junior to the Notes or the Guarantee and in priority to the claims of holders of all classes of share capital of the Issuer, or as the case may be, the Guarantor.

All payments in respect of the Notes and the Coupons relating to them or the Guarantee (other than payments made in the event of the bankruptcy, dissolution, or winding-up of the Issuer, or as the case may be, the Guarantor) shall be conditional upon the Issuer or the Guarantor, as the case may be, being solvent at the time for payment, and no amount shall be payable in respect of the Notes and Coupons relating to them or the Guarantee unless and until such time as the Issuer or the Guarantor, as the case may be, could make such payment and still be solvent immediately thereafter.

Neither the Issuer nor the Guarantor, as applicable, may redeem or purchase any of the Notes unless the Issuer, or, as the case may be, the Guarantor, is solvent both at the time of and immediately after any such redemption or purchase.

For the purposes of this Condition 3(a), the Issuer or the Guarantor, as the case may be, shall be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as

to the solvency of the Issuer or the Guarantor, as the case may be, by two directors of the Issuer or the Guarantor respectively, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the holders of the Notes and Coupons relating to them and all other interested parties as correct and sufficient evidence thereof.

- (b) *Set-off*: Subject to applicable law, no Noteholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer or the Guarantor, as the case may be, arising under or in connection with the Notes or the Guarantee and each Noteholder shall, by virtue of being the holder of any Note, be deemed to have waived all such rights of set-off. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer or the Guarantor, as the case may be, under or in connection with the Notes or the Guarantee is discharged by set-off, such Noteholder shall immediately pay the amount of such discharge to the Issuer or the Guarantor or, in the event of its winding-up, the liquidator of the Issuer or the Guarantor respectively and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer or the Guarantor, or the liquidator of the Issuer or the Guarantor respectively, and accordingly any such discharge shall be deemed not to have taken place.

4. Interest

- (a) *Fixed Interest Period*: The Notes bear interest from (and including) 24 June 2005 (the “**Issue Date**”) to (but excluding) 24 June 2015 at the rate of 4.25 per cent. per annum (the “**Fixed Rate of Interest**”) payable in arrear on 24 June in each year (each, a “**Fixed Interest Payment Date**”), subject as provided in Conditions 3 (*Status and Guarantee*), 5 (*Deferral of Payments*) and 7 (*Payments*).

The amount of interest payable on each Fixed Interest Payment Date shall be €42.50 in respect of each Note. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Fixed Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

“**Day Count Fraction**” means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Fixed Interest Period in which the relevant period falls; and

“**Fixed Interest Period**” means each period from (and including) the Issue Date or any Fixed Interest Payment Date to (but excluding) the next Fixed Interest Payment Date.

- (b) *Floating Interest Period*: The Notes bear interest from (and including) 24 June 2015 at the Floating Rate of Interest, payable in arrear on 24 September, 24 December, 24 March and 24 June in each year (each, a “**Floating Interest Payment Date**” and together with the Fixed Interest Payment Dates, the “**Interest Payment Dates**” and each, an “**Interest Payment Date**”) commencing on 24 September 2015, subject as provided in Conditions 3 (*Status and Guarantee*), 5 (*Deferral of Payments*) and 7 (*Payments*); provided, however, that, if any Floating Interest Payment Date would otherwise fall on a date which is not a TARGET Settlement Day, it will be postponed to the next TARGET Settlement Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding TARGET Settlement Day. Each period beginning on (and including) 24 June 2015 or any Floating Interest Payment Date and ending on (but excluding) the next Floating Interest Payment Date is herein called a “**Floating Interest Period**”. A Floating Interest Period and/or a Fixed Interest Period is herein called “**Interest Period**”.
- (c) *Floating Rate of Interest*: The rate of interest applicable to the Notes (the “**Floating Rate of Interest**”) for each Floating Interest Period will be determined by the Principal Paying Agent on the following basis:
- (i) The Principal Paying Agent will determine the rate for deposits in Euro for a period equal to the relevant Floating Interest Period which appears on the display page designated 248 on Telerate Service (or such other page as may replace that page on that service, or such other

service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as of 11:00 a.m. (Brussels time) on the second TARGET Settlement Day before the first day of the relevant Floating Interest Period (the “**Floating Interest Determination Date**”);

- (ii) if such rate does not appear on that page, the Principal Paying Agent will:
 - (A) request the principal Euro zone office of each of four major banks in the Euro zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Floating Interest Determination Date to prime banks in the Euro zone interbank market for a period equal to the relevant Floating Interest Period and in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the Principal Paying Agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro zone, selected by the Principal Paying Agent, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Floating Interest Period for loans in Euro to leading European banks for a period equal to the relevant Floating Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Floating Rate of Interest for such Floating Interest Period shall be the sum of 2 per cent. per annum and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Principal Paying Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Floating Interest Period, the Floating Rate of Interest applicable to the Notes during such Floating Interest Period will be the sum of 2 per cent. per annum and the rate or (as the case may be) arithmetic mean last determined in relation to the Notes in respect of the latest preceding Floating Interest Period for which a rate or (as the case may be) arithmetic mean was determined. If there is no preceding Floating Interest Period in respect of which the Floating Rate of Interest has been determined, the Principal Paying Agent shall determine the Floating Rate of Interest, at such rate as, in its absolute discretion but after consultation with the Trustee, it shall deem fair and reasonable in the circumstances.

- (d) *Calculation of Interest Amount:* The Principal Paying Agent will, as soon as practicable after the Floating Interest Determination Date in relation to each Floating Interest Period, calculate the amount of interest (the “**Floating Interest Amount**”) payable in respect of each Note for such Floating Interest Period. The Floating Interest Amount will be calculated by applying the Floating Rate of Interest for such Floating Interest Period to the outstanding principal amount of a Note, multiplying the product by the actual number of days in such Floating Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (e) *Publication:* The Principal Paying Agent will cause each Floating Rate of Interest and Floating Interest Amount determined by it, together with the relevant Floating Interest Payment Date, to be notified to the Paying Agents, the Trustee and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Floating Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Principal Paying Agent will be entitled to recalculate any Floating Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Floating Interest Period.
- (f) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Principal

Paying Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Trustee, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Principal Paying Agent or (in the circumstances referred to in Condition 4(h) (*Failure of Principal Paying Agent*) below) the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

- (g) *Accrual of Interest*: Subject to Condition 3 (*Status and Guarantee*), each Note will cease to bear interest from the due date for redemption, if any, unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (h) *Failure of Principal Paying Agent*: If the Principal Paying Agent fails at any time to determine a Floating Rate of Interest or to calculate a Floating Interest Amount as aforesaid, the Trustee will determine such Floating Rate of Interest as it in its discretion considers fair and reasonable in the circumstances (having regard as it thinks fit to paragraph 4(c) (*Floating Rate of Interest*) above) or (as the case may be) calculate such Interest Amount in accordance with paragraph 4(d) (*Calculation of Interest Amount*) above.

5. Deferral of Payments

- (a) *Optional Deferral of Interest*: The Issuer (or as the case may be, the Guarantor under the Guarantee) may elect to defer any payment of interest on the Notes which would otherwise be payable on an Interest Payment Date by giving notice (the “**Deferral Notice**”) of such election to the Noteholders in accordance with Condition 16 (*Notices*) and to the Trustee not less than 14 days prior to the relevant Interest Payment Date.

The deferral of any interest payment on any Interest Payment Date in accordance with this Condition 5(a) will not constitute a default by the Issuer (or the Guarantor) and will not give Noteholders or the Trustee any right to accelerate the Notes.

Notwithstanding the above, on any Interest Payment Date with respect to which (i) a Capital Disqualification Event has occurred and is continuing and (ii) the Issuer and the Guarantor are in compliance with their respective Applicable Regulatory Capital Requirements, the Issuer shall, subject to the requirement of Condition 3(a) (*Status and Guarantee - General*) as to solvency, be obliged to pay the interest payable on such Interest Payment Date and neither the Issuer (nor the Guarantor) may exercise its discretion pursuant to the first paragraph in this Condition.

- (b) *Restrictions following Deferral of Interest*: If, on any Interest Payment Date, interest in respect of the Notes shall not have been paid, then from such Interest Payment Date until such time as the full amount of the relevant Arrears of Interest has been received by the Noteholders or the Trustee and no other payment of Arrears of Interest remains unsatisfied, the Issuer and the Guarantor shall not (i) declare a dividend or other distribution or payment in respect of any class of its share capital or pay interest on any other junior or *pari passu* ranking securities (excluding any obligation of the Issuer (or the Guarantor), the initial tranche of which was issued on or before the Issue Date and the terms of which do not enable the Issuer to defer, pass on or eliminate such dividend, distribution, payment or interest); or (ii) redeem, purchase or acquire any of its ordinary shares or other junior or *pari passu* ranking securities.
- (c) *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, shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. Any Arrears of Interest will not themselves bear interest. Any Arrears of Interest, may (subject to Condition 3 (*Status and Guarantee*)) be paid in whole or in part at any time upon the expiry of not less than 14 days’ notice to such effect

given by the Issuer, or the Guarantor as the case may be, to the Trustee and to the Noteholders in accordance with Condition 16 (*Notices*) as specified in such notice (the “**Optional Deferred Interest Payment Date**”), and in any event will automatically become immediately due and payable (irrespective of any prior written notice to, or absence of objection from, the FSA) in whole upon the earliest of the following dates (the “**Resumption Date**”):

- (i) the date on which the Issuer or the Guarantor, as the case may be, declares a dividend or other distribution or payment in respect of any class of its share capital or pays interest on the Notes or any other junior or *pari passu* ranking securities (excluding any obligation of the Issuer (or the Guarantor), the initial tranche of which was issued on or before the Issue Date and the terms of which do not enable the Issuer to defer, pass on or eliminate such dividend, distribution, payment or interest);
- (ii) the date on which the Issuer or the Guarantor, as the case may be, commences and does not abandon a public offer to redeem, purchase or acquire any of its ordinary shares or other junior or *pari passu* ranking securities;
- (iii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer or the Guarantor, as the case may be, (other than a winding-up which has been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders); or
- (iv) the date fixed for any redemption, purchase or repayment of Notes by or on behalf of the Issuer or the Guarantor, as the case may be, pursuant to Condition 6 (*Redemption and Purchase*) or Condition 9 (*Events of Default*).

6. Redemption and Purchase

- (a) *No fixed Redemption Date*: The Notes have no final maturity date and are only redeemable or repayable in accordance with the following provisions of this Condition 6 (*Redemption and Purchase*) and Condition 9 (*Events of Default*).
- (b) *Redemption for tax reasons*: Subject to the requirement of Condition 3(a) (*Status and Guarantee – General*) as to solvency, the Notes may be redeemed at the option of the Issuer in whole, but not in part, (i) at any time before 24 June 2015 and (ii) on 24 June 2015 or any Floating Interest Payment Date thereafter, if, immediately before giving notice to Noteholders pursuant to Condition 6(e) (*Procedures*), the Issuer satisfies the Trustee that:
 - (i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 22 June 2005; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
 - (ii) (A) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) or the Guarantee, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 22 June 2005; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee were then made.

- (c) *Redemption of the Notes for Regulatory Purposes*: If, immediately before giving notice to Noteholders pursuant to Condition 6(e) (*Procedures*), the Issuer satisfies the Trustee that a Capital Disqualification Event has occurred and is continuing, then subject to the requirement of Condition 3(a) (*Status and Guarantee – General*) as to solvency, the Issuer may redeem the Notes in whole, but not in part, (i) at any time before 24 June 2015 and (ii) on 24 June 2015 or any Floating Interest Payment Date thereafter.
- (d) *Redemption at the Option of the Issuer*: Unless the Issuer shall have given notice to redeem the Notes under Condition 6(b) (*Redemption for tax reasons*) or Condition 6(c) (*Redemption of the Notes for Regulatory Purposes*) on or prior to the expiration of the notice referred to below, subject to the requirement of Condition 3(a) (*Status and Guarantee – General*) as to solvency, the Notes may be redeemed at the option of the Issuer, in whole, but not in part, on 24 June 2015 or on any Interest Payment Date thereafter (the “**Call Settlement Date**”).
- (e) *Procedures*

Any redemption:

- (i) under Condition 6(b) (*Redemption for tax reasons*) will be at the Redemption Price;
- (ii) under Condition 6(c) (*Redemption of the Notes for Regulatory Purposes*) will be at the Make-Whole Redemption Price if the relevant Redemption Date falls prior to 24 June 2015 and at the Redemption Price if the relevant Redemption Date falls on or after 24 June 2015; and
- (iii) under Condition 6(d) (*Redemption at the Option of the Issuer*) will be at the Redemption Price,

and, in each case, shall include all accrued interest from (and including) the preceding Interest Payment Date (or, if none, the Issue Date) to the Redemption Date and the aggregate amount of any Arrears of Interest and shall be paid on the Redemption Date.

Any redemption under this Condition 6 is subject to the Issuer, having given at least six months’ prior written notice to, and received no objection from, the FSA (or such shorter notice period as the FSA may accept and so long as such notice is required to be given) and having given not less than 30 nor more than 60 days’ notice to the Noteholders, the Trustee and the Principal Paying Agent.

Prior to the giving of any notice of redemption to Noteholders, the Trustee and the Principal Paying Agent following the occurrence of the events in Condition 6(b)(i) or (ii) (*Redemption for tax reasons*) or 6(c) (*Redemption of the Notes for Regulatory Purposes*), the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right to redemption have occurred, and (b) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer is entitled to exercise its right of redemption.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent to any such redemption and they shall be conclusive and binding on the Noteholders and Couponholders.

Any notice of redemption will be irrevocable and will provide details of the Redemption Date.

- (f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 6(b) (*Redemption for tax reasons*), Condition 6(c) (*Redemption of the Notes for Regulatory Purposes*), and Condition 6(d) (*Redemption at the Option of the Issuer*) above.
- (g) *Purchases*: Subject to the requirement of Condition 3(a) (*Status and Guarantee – General*) as to solvency, the Issuer, the Guarantor or any of their Subsidiaries may, having given prior written notice to, and received no objection from, the FSA (so long as such notice is required to be given), at any time purchase Notes in the open market or otherwise at any price; provided that all unmaturing Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith.

- (h) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries and any unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith shall be cancelled and may not be reissued or resold.

7. Payments

- (a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system (the “**TARGET System**”).
- (b) *Interest*: Payments of interest shall, subject to Condition 7(g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto in respect of a Fixed Interest Period, then:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 7(a) (*Principal*) against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void Coupons.

- (e) *Unmatured Coupons void*: On the due date for redemption or repayment pursuant to Condition 6(b) (*Redemption for tax reasons*), Condition 6(c) (*Redemption of the Notes for Regulatory Purposes*), Condition 6(d) (*Redemption at the option of the Issuer*), or Condition 9 (*Events of Default*), all

unmatured Coupons (if any) relating thereto in respect of a Floating Interest Period (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (f) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.
- (g) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (h) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (i) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a “**Coupon Sheet**”), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 10 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

8. Taxation

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or 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 or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

- (a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) by or on behalf of a holder 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; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

- (e) by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirement or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the Note or Coupon is presented for payment; or
- (f) in the United Kingdom.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal, interest or Arrears of Interest shall be deemed to include any additional amounts in respect of principal, interest or Arrears of Interest (as the case may be) which may be payable under this Condition 8 (*Taxation*) or any undertaking given in addition to or in substitution for this Condition 8 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

9. Events of Default

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer and the Guarantor declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with all Arrears of Interest and accrued interest without further action or formality:

- (a) *Non-payment*: subject to the provisions of Condition 5 (*Deferral of Interest*), the Issuer and the Guarantor fail to pay any amount of principal in respect of the Notes on the due date for payment thereof or fail to pay any amount of interest in respect of the Notes within seven days of the due date for payment thereof; or
- (b) *Winding-up, etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer or the Guarantor other than a winding-up or dissolution which has been approved in writing by the Trustee or by an Extraordinary Resolution.

10. Proceedings for Winding-up and Enforcement

- (a) *Proceedings for winding-up*: If the Notes become due and payable pursuant to Condition 9 (*Events of Default*) and are not paid when so due and payable or a redemption notice has been given to Noteholders pursuant to Condition 6(b) (*Redemption and Purchase - Redemption for tax reasons*), Condition 6(c) (*Redemption and Purchase - Redemption of the Notes for Regulatory Purposes*) or Condition 6(d) (*Redemption and Purchase - Redemption at the option of the Issuer*) and the Notes are not redeemed and all amounts due thereon not paid in accordance with such Conditions, (disregarding the requirement of Condition 3(a) (*Status and Guarantee - General*) as to solvency) the Trustee may at its discretion institute proceedings for the winding-up of the Issuer and/or the Guarantor, but may take no further or other action to enforce the obligations of the Issuer and/or the Guarantor 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 Guarantor pursuant to Condition 9 (*Events of Default*), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Guarantor, unless the Guarantor has given prior written notice to, and received no objection from, the FSA.

- (b) *Enforcement*: Without prejudice to Condition 9 (*Events of Default*) and Condition 10(a) (*Proceedings for winding-up*), the Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and the Guarantee (other than any obligation for the payment of any principal, interest or Arrears of Interest in respect of the Notes or the Guarantee) provided that neither the Issuer nor the Guarantor shall 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.
- (c) *Entitlement of the Trustee*: The Trustee shall not be bound to take any of the actions referred to in Condition 10(a) (*Proceedings for winding-up*) and (b) (*Enforcement*) above unless:
 - (i) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
 - (ii) it has been indemnified or provided with security to its satisfaction.
- (d) *Right of Noteholders*: No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor or to prove in the winding-up of the Issuer or the Guarantor unless the Trustee, having become bound to so proceed or being able to proceed in such winding-up, fails to do so within a reasonable time and such failure is continuing, in which case the Noteholder shall have only such rights against the Issuer or the Guarantor as those which the Trustee is entitled to exercise. Any such proceedings brought by any Noteholder shall be brought in the name of the Trustee, subject to the Noteholder indemnifying the Trustee to its satisfaction.
- (e) *Extent of Noteholders' remedy*: No remedy against the Issuer and/or the Guarantor, other than as referred to in Condition 9 (*Events of Default*) and this Condition 10, 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 and/or the Guarantor of any of its other obligations under or in respect of the Notes, Coupons or under the Trust Deed.

11. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

12. Replacement of Notes, Coupons and Talons

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

13. Trustee and Paying Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that the Issuer and the Guarantor shall at all times maintain (a) a principal paying agent, (b) a paying agent in London, (c) a paying agent in a major city in Europe (but not in the United Kingdom) approved by the Trustee and (d) if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

14. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed). Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any redemption date or date fixed for payment of interest or Arrears of Interest in respect of the Notes, to reduce the amount of principal, interest or Arrears of Interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders or Couponholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or

breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) *Substitution*: The Trust Deed contains provisions under which the Guarantor or any wholly-owned subsidiary (as defined in Section 736 of the Companies Act 1985) of the Guarantor or of HBOS Financial Services Limited may, without the consent of the Noteholders or Couponholders assume the obligations of the Issuer (or any previous substitute under this Condition) as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled, including, in the case of a substitution of the Issuer by a company other than the Guarantor, a requirement that the Guarantee is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes and the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced thereby.

No Noteholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder or (as the case may be) Couponholder except to the extent provided for in Condition 8 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

- (d) *Notice to FSA*: 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 Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice).

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

16. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

17. Governing Law

The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denomination of €1,000 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, an “**Exchange Event**”) occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

- (a) *Payments:* All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.
- (b) *Notices:* Notwithstanding Condition 16 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 16 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to €739,777,500 after deduction of the combined management and underwriting commission and the expenses incurred in connection with the issue of the Notes will be made available on a subordinated basis by the Issuer to the Guarantor, who will use the proceeds it receives for general business and commercial activities of the Guarantor and its subsidiaries and refinancing of existing debt.

DESCRIPTION OF THE ISSUER

The Issuer was incorporated as a public limited company with limited liability in England and Wales on 24 September 1999 under the Companies Act 1985 (as amended) and registered in England and Wales with registered number 3850542. The Issuer is a wholly owned subsidiary of HBOS Financial Services Limited (formerly known as Clerical Medical Investment Group (Holdings) Limited).

As at the date of this document, the authorised share capital of the Issuer is £225,000 divided into 225,000 ordinary shares of £1 each, all of which have been issued and fully paid.

The business of the Issuer is to act as finance company of the Guarantor. The Issuer's sole activity since its incorporation is the issuance of £200,000,000 7% per cent. Undated Subordinated Guaranteed Bonds and €400,000,000 Fixed/Floating Subordinated Guaranteed Bonds due 2023.

The directors of the Issuer are John Edwards and Keith Abercromby. Each of them is an executive director. The principal activities performed by each of them outside the Issuer, Guarantor and its subsidiaries which are or may be significant to the business of the Issuer are listed on page 36.

The registered and head office of the Issuer and the business address of each of the directors of the Issuer for matters relating to the Issuer's business is 33 Old Broad Street, London EC2N 1HZ.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation and indebtedness of the Issuer as at 31 December 2004 as extracted without material adjustment from the Issuer's annual audited accounts.

	£
Share Capital	
225,000 ordinary shares of £1 each, fully paid	225,000
Profit and Loss Account	23,000
Loan Capital	
Subordinated Long Term Debt	479,694,000
Total Capitalisation	<u>479,942,000</u>

Notes:

- (1) The table has not been adjusted to take account of the issue of the Notes.
- (2) As at 31 December 2004, the Issuer had no contingent liabilities nor had it issued any guarantees.
- (3) The above table sets out the entire indebtedness of the Issuer as at 31 December 2004.
- (4) None of the Issuer's liabilities described above are secured.
- (5) The Issuer's £200,000,000 7% per cent. Undated Subordinated Guaranteed Bonds and €400,000,000 Fixed/Floating Subordinated Guaranteed Bonds due 2023, the net proceeds of which are described in the above table as "Subordinated Long Term Debt", are guaranteed on a subordinated basis by the Guarantor. The Notes now being issued will also be guaranteed by the Guarantor.
- (6) All 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 2004.
- (7) There has been no material change in the Issuer's capitalisation, indebtedness, guarantees or contingent liabilities since 31 December 2004.

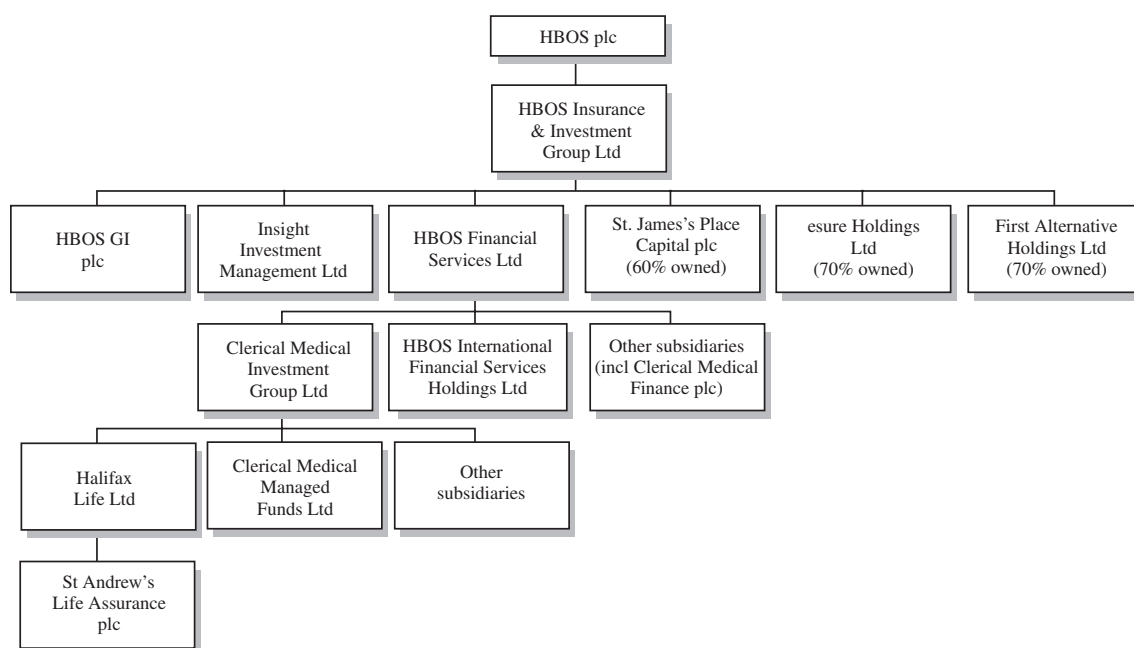
DESCRIPTION OF THE GUARANTOR

HISTORY AND RECENT DEVELOPMENTS

Clerical Medical was founded in 1824 as the Medical, Clerical and General Life Assurance Society, changing its name in 1825 to the Clerical, Medical and General Life Assurance Society. In 1974 Clerical Medical was incorporated by Act of Parliament as the Clerical, Medical and General Life Assurance Society. On 31 December 1996, the business of Clerical Medical and General Life Assurance Society was transferred to CMIG and was simultaneously acquired by Halifax Building Society, which, on 2 June 1997 transferred its business to Halifax plc. A corporate restructuring on 1 June 1999 involved the introduction of a new parent company, Halifax Group plc. Following the restructuring, certain companies held by Halifax plc, including CMIG, were transferred to Halifax Group plc. On 10 September 2001 Halifax Group plc merged with Bank of Scotland under a new holding company, HBOS plc. Following the merger, ownership of the insurance and investment subsidiaries of Halifax Group plc and Bank of Scotland, including CMIG, was transferred to HBOS Insurance & Investment Group Limited, a subsidiary of HBOS plc. As part of that same internal restructuring, ownership of Halifax Life Limited was transferred from Halifax Financial Services (Holdings) Limited to CMIG. In June 2004, ownership of St Andrew’s Life Assurance plc, a subsidiary of HBOS Insurance & Investment Group Limited, was transferred to Halifax Life Limited.

CMIG is wholly owned by HBOS Financial Services Limited which, in turn, is wholly owned by HBOS Insurance & Investment Group Limited. The principal subsidiaries of CMIG are Clerical Medical Managed Funds Limited, Halifax Life Limited and St Andrew’s Life Assurance plc.

The legal entity structure of the Guarantor and its subsidiaries (the “**Group**”) is summarised in the table below. This also shows the parentage of CMIG up to its ultimate parent company, HBOS plc.



Following the restructurings referred to above, CMIG’s subsidiaries include Halifax Life Limited and St Andrew’s Life Assurance plc. These three companies are all life and pensions companies and so there is considerable duplication between the companies. To reduce this duplication and create a more effective company structure, it is intended to transfer certain with profits business from Halifax Life Limited to CMIG and certain life and annuity business from Halifax Life Limited to St Andrew’s Life Assurance plc. The with profits policies transferring to CMIG are currently almost entirely reinsured to CMIG. Subject to the approval of the High Court, the transfer will be achieved through a Scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the “**FSMA**”). The Scheme has been submitted to the High Court for its sanction with a report on the Scheme’s terms by an independent expert, Mr Nicholas J. Dumbreck of

Watson Wyatt LLP. It is intended to seek final approval of the Scheme at a hearing before the High Court on 25 November 2005 with an intended implementation date of 26 May 2006.

The Group continues to trade under the name of the Clerical Medical Investment Group or “Clerical Medical”. The exceptions to this are Halifax Life Limited and St Andrew’s Life Assurance plc which trade under the names “Halifax Life” and “St Andrew’s” respectively.

CONSTITUTION OF CMIG

CMIG was incorporated as a private company with limited liability under the laws of England on 2 May 1996. The registered office of CMIG is 33 Old Broad Street, London EC2N 1HZ. The memorandum and articles of association of CMIG form the constitutional documents of CMIG.

CMIG’s authorised share capital is 1,709,000,000 shares of £1 each, 1,629,000,000 shares of which have been issued and fully paid.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the figures for the shareholders' equity, borrowings and contingent liabilities of CMIG as at 31 December 2004 as extracted without material adjustment from CMIG's annual audited accounts and underlying accounting information. Those accounts present information about CMIG as an individual entity and are not consolidated.

	<i>As at 31 December 2004 £'m</i>
Borrowings	
Loan Capital⁽³⁾	1,011.6
Total Borrowings	1,011.6
Shareholders' Equity	
Share Capital	
Authorised: 1,709,000,000 ordinary shares of £1 each	1,709.0
Issued and fully paid: 1,629,000,000 ordinary shares of £1 each	1,629.0
Share premium account	1.0
Profit and loss account	233.4
Merger reserve	246.2
General reserves	611.7
Total Shareholders' Equity	2,721.3

Notes:

- (1) The table has not been adjusted to take account of the issue of the Notes.
- (2) All 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 2004.
- (3) With the exception of Loan Capital, which includes £479.1m loaned by the Issuer to the Guarantor and represents the proceeds of the issue of the bonds referred to in (4) below, and a contingent loan from HBOS plc with a carrying value of £532.5m (including accrued interest), all intra-group loans are excluded from the above table.
- (4) On 5 November 1999 and 12 December 2000, the Issuer issued in aggregate £200,000,000 7% per cent. Undated Subordinated Guaranteed Bonds, which are guaranteed on a subordinated basis by the Guarantor after the claims of the Guarantor's senior creditors, including all policyholders. On 5 July 2001, the Issuer issued €400,000,000 Fixed/Floating Subordinated Guaranteed Bonds due 2023, which are guaranteed on a subordinated basis by the Guarantor after the claims of the Guarantor's senior creditors including all policyholders. The proceeds of the issues were loaned to the Guarantor on similar interest, repayment and subordination terms as those applicable to the 7% per cent. Undated Subordinated Guaranteed Bonds and the Fixed/Floating Subordinated Guaranteed Bonds respectively, and this has been disclosed as part of "Total Borrowings" in the table above. Save for the guarantees provided by the Guarantor as described above, the Guarantor has no other contingent liabilities.
- (5) None of the Guarantor's liabilities described in the above table are secured or guaranteed.
- (6) There has been no material change in the authorised or issued share capital, shareholders' equity, the borrowings, the guarantees or in the contingent liabilities of the Guarantor since 31 December 2004.

THE BUSINESS OF THE GUARANTOR

SUMMARY OF OPERATIONS

The business of the Guarantor is operated principally through CMIG (ie the Guarantor itself) and its main subsidiary, Halifax Life Limited. In describing the UK business of the Guarantor, reference is therefore made to both the Clerical Medical business in the UK (which is written principally through CMIG) and the Halifax Life business (which is written through Halifax Life Limited).

The Group's activities are run from seven main sites: in Bristol, Leeds, Clevedon and Aylesbury in the UK, and Luxembourg, Maastricht and the Isle of Man outside of the UK. CMIG's registered office is at 33 Old Broad Street, London EC2N 1HZ and its main office is in Bristol.

Product and Service Overview

The Group's principal operations consist of the provision of long-term insurance and associated investment products and services. The Group is a part of the HBOS Financial Services Limited Group (the "**HBOS Financial Services Limited Group**" means HBOS Financial Services Limited and its subsidiaries), which is managed as a separate operating division of HBOS plc. The main activity of the Group is insurance business. The wider HBOS Financial Services Limited Group (of which the Group is a part) also includes subsidiaries which manage Open Ended Investment Companies. Investment Management is outsourced, primarily to Insight Investment Management (Global) Limited, a subsidiary of HBOS plc. Third party administration and administration on behalf of the Group is undertaken by another subsidiary of HBOS Financial Services Limited.

Insurance Business

The Clerical Medical and Halifax Life insurance businesses comprise the underwriting, marketing and administration of long-term business, together with the outsourced investment management of the investment activity associated with that business. The two product areas are:

- (1) life insurance business, split broadly into protection, savings and investment products; and
- (2) pensions and related business, split broadly into individual and group pensions, retirement plans and annuities.

Clerical Medical and Halifax Life provide a wide range of insurance-based products. The main product lines are summarised below:

Life Protection Policies

Traditional term assurance policies
Low cost and flexible whole life policies

Group Pensions

Final salary pensions
Managed Funds
Group money purchase pensions*
Group personal pensions*#
Group AVC plans*
Group Life¹
Group stakeholder pensions*#
Contribution Protection Plan²

Annuities

Pension annuities to retirements from Clerical Medical and Halifax Life schemes

Individual Pensions

Personal and "executive" pensions
Free standing AVC plans
Transfer plans including section 32
Trustee investment plans
SSASs
Income drawdown including "Phased Retirement" plans (via James Hay Pension Trustees Limited SIPP)
Stakeholder Pensions
Income drawdown plans

(1) Only in conjunction with * above

(2) Only in conjunction with # above

Life Investment Products

Unit-linked investment bonds
Offshore portfolio bonds
With-profits bonds
Distribution bonds

Life Savings Products

Unitised regular savings plans
Unitised mortgage endowment products

Clerical Medical has around 70 active funds including managed funds (low, medium and high risk mixes of equity, property, cash and fixed interest); cash, gilt/fixed interest and property funds; UK, Japanese, South East Asian, North American and European equity funds and derivative-based guaranteed and smoothed funds.

Halifax Life has 19 active funds including a managed fund (mixture of equity, cash, fixed interest and property); a derivative based guaranteed fund; property, gilt/fixed interest, indexed linked gilt and cash funds; and a range of equity funds including UK, North American, European and Japanese funds.

The premium income of the main members of the Group is as follows:

	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>£m</u>
Net Premiums Written (net of reinsurance)*		
CMIG	1,299.2	2,014.9
Clerical Medical Managed Funds Limited.....	1,862.0	1,955.5
Halifax Life Limited.....	3,841.5	2,993.6
	<u>7,002.7</u>	<u>6,964.0</u>
Annual Premium Equivalent**		
UK Intermediary Channel (including Insight Investment Management (Global) Limited and including UK offshore business written by CMI Insurance Company Limited, a subsidiary of HBOS International Financial Services Holdings Limited)***	378	389
Bancassurance Channel (excluding OEICs)****	429	384
Bancassurance Channel OEICs (OEICs are written by Halifax Investment Fund Managers Limited, a subsidiary of HBOS Financial Services Limited)	256	228
International business (including European business written by CMI Insurance Company Limited)	141	77
	<u>1,204</u>	<u>1,078</u>

* The above net premium income figures are extracted from the financial statements of CMIG, Clerical Medical Managed Funds Limited and Halifax Life Limited for the year ended 31 December 2004.

** Annual Premium Equivalent ("APE") is calculated as regular premiums plus 10 per cent. of single premiums and is taken from the HBOS plc Annual Report and Accounts 2004.

*** The "UK Intermediary Channel" represents all sales of life and pensions products by Clerical Medical in the UK market together with OEIC sales by Insight Investment Management (Global) Limited.

**** The "Bancassurance Channel" represents sales through the HBOS plc retail branch network and the Bank of Scotland Investment Service salesforce.

Investment Management

Clerical Medical and Halifax Life outsource investment management of a substantial part of their life and pension funds, together with associated administrative support, to Insight Investment Management (Global) Limited, a subsidiary of HBOS plc. However, Clerical Medical and Halifax Life now have more than 50 funds (which represent a relatively small proportion of total funds by value) where the investment management is undertaken by external specialist investment houses such as Newton, UBS, Schroder, Invesco and Fidelity.

Open Ended Investment Companies (“OEICs”)

Clerical Medical markets a range of investment funds and individual savings accounts (“ISAs”), within an OEIC, via the intermediary channel. It also manages existing personal equity plan (“PEP”) schemes. Clerical Medical’s OEIC activities are conducted through Clerical Medical Investment Fund Managers Limited, a subsidiary of HBOS Financial Services Limited.

At 31 December 2004, the OEIC comprised five funds (Balanced Managed, FTSE 100 Tracker, International Managed, Distribution and Income), together with a structured OEIC fund which uses wider investment powers under UCITS III rules. Investments can be made into OEIC funds and ISAs by single lump sums or through regular savings plans.

Administration for the OEIC is undertaken by Mellon Bank N.A.

The HBOS Financial Services Limited Group also markets 3 OEICs under the Halifax and Bank of Scotland brands. These OEICs are managed by Halifax Investment Fund Managers Limited, an OEIC management subsidiary of HBOS Financial Services Limited. OEIC sales through the Bancassurance Channel generated Annual Premium Equivalent income of £256 million in 2004 (measured as regular premiums plus 10 per cent. of single premiums).

Although the HBOS Financial Services Limited Group (including the Group) operates as a single operating division through a number of brands and channels, Halifax Investment Fund Managers Limited and Clerical Medical Investment Fund Managers Limited are not part of the Group and so their business is not described further in this document.

UK DISTRIBUTION

Clerical Medical’s range of products is distributed in the UK predominantly through the UK Intermediary Channel, that is through the independent financial advisor (“IFA”) channel, whilst Halifax Life products are distributed primarily through the Bancassurance Channel, that is through the HBOS plc retail branch network and the Bank of Scotland Investment Services salesforce.

The UK Intermediary Channel

Clerical Medical has, through its UK Intermediary Channel, built its market share in the IFA sector to 5 per cent. of the total IFA market as at 31 December 2004 (5.9 per cent. for the part of the market Clerical Medical operates in) (source: quarterly figures supplied by Association of British Insurers (“ABI”). During the last two quarters of 2004, 49 per cent. of the Group’s IFA business came from national and larger regional brokers (nationwide IFA firms) (excluding wholesale and OEIC business but including UK offshore business), 25 per cent. from strategic accounts and 26 per cent. from regional IFAs.

From its 5 intermediary sales offices in the UK, Clerical Medical services the UK IFA sector with a network of 100 regional account managers and sales managers, 26 telephone account consultants, 5 investment specialists, 11 pensions specialists, 8 wealth management specialists and 11 national account managers. National account managers deal at a senior level with the large national firms of IFAs and specialist advisers are also available to advise IFAs on the more complicated investment and pension products.

Long-term plans for extending Clerical Medical’s penetration in the IFA sector are based on delivering value to consumers and distributors. For consumers this is intended to be delivered through competitive products in terms of price, product features and simple, transparent charging. For distributors this is intended to be delivered through commitment to enhancing sales support and customer service in order to create deeper and more productive relationships. In addition, with competition remaining fierce in the adviser market and significant regulatory changes in 2004/5, Clerical Medical aims to proactively develop selective multi tie agreements with existing key distributors.

Clerical Medical will remain focused on enhancing the intermediary service proposition to make it easier for advisers to do business with Clerical Medical. This will be delivered through the ‘Advice Matters’ programme which supports key advisers in identifying and developing new markets, effective day to day

business management and long term business development. Enhancing online service capabilities will also remain a key long term focus.

The Bancassurance Channel

Halifax Life is the largest provider in the UK bancassurance (“bancassurance” refers to the selling of insurance through a bank’s established distribution channels) sector (based on APE for the year ended 31 December 2004) leveraging the brand franchises of Halifax and Bank of Scotland, the HBOS customer database and the distribution reach of other divisions of HBOS plc.

Halifax Life was the fastest growing life office in the UK during 2001 and 2002 (source: Money Management July 2002/July 2003) and established itself firmly as a top 10 life company in 2003, ranked 8th (source: Money Management July 2004). As at 31 December 2004 Halifax Life had a 4.7 per cent. share of the Life & Pensions market as measured by Annual Premium Equivalent (source: internal APE/ABI Summary of New Business).

The Bancassurance Channel will continue to focus on high volume low cost investment and protection products targeted towards the HBOS plc customers primarily under the Halifax and Bank of Scotland brands. The products are simpler than typical investment products and the service proposition is closely aligned to both Halifax and Bank of Scotland brands as distributors and to the Group’s low cost administration capability.

Branding and positioning in the UK

Clerical Medical

Clerical Medical has specialised in investing for the future, offering pensions and investments since it was founded in 1824. Clerical Medical aims to consolidate its position as a leading life provider by being the provider of choice, one that customers can trust and the industry admires and envies. Clerical Medical believes it is important for customers to get expert financial advice to help them make smart financial decisions for the future but balancing the need to plan with recognition that everyone wants to live for the moment.

Clerical Medical has a high degree of prompted awareness among its consumer markets. At the end of 2004 prompted awareness was at 81 per cent. (based on Clerical Medical’s brand tracking study at the end of 2004, where prompted awareness was measured by asking consumers ‘which of these brands have you heard of?’). Clerical Medical also has an excellent reputation among its chosen financial adviser markets, being ranked second in ‘overall relationship’ (based on research undertaken by Clerical Medical in September 2004 to monitor intermediary relationship satisfaction).

Halifax Life

Halifax Life provides products to meet the needs of the traditional mass market, mass affluent and small and medium enterprise (“SME”) customers of HBOS plc through a segmented, multi-brand distribution model:

- Halifax branded products are sold by approximately 850 high street branch based advisers meeting the core needs of the mass market customer. This model takes advantage of the strength of the Halifax brand and is based on the strong relationship between the retail branch network and the bancassurance business.
- The Bank of Scotland Investment Service is a salesforce of approximately 250 advisers meeting the more complex needs of the mass market, mass affluent and SME customers.

INTERNATIONAL OPERATIONS

Clerical Medical International has its headquarters based in Luxembourg and further offices in Maastricht, Vienna, Milan and Douglas, Isle of Man. The Clerical Medical International business is focused on meeting

the needs of the growing European market, and runs substantial in-force books in both mainland Europe and the Isle of Man.

The majority of Clerical Medical International's business is written through branches of CMIG and so is accounted for in the financial statements of CMIG. However a relatively small proportion of international business is recorded in the accounts of CMI Insurance Company Limited, a subsidiary of HBOS International Financial Services Holdings Limited, which in turn is a direct subsidiary of HBOS Financial Services Limited and so is not part of the Group.

Distribution and Products

A network of independent brokers, known as Premier Distributors, Master Distributors and Brokers, distribute a range of products and services to overseas clients including regular premium savings plans, single premium bonds and retirement plans. In addition, these products are also distributed by various locally regulated banks in European countries including Germany, Italy and Austria. Many of these products offer the client a choice of linking the policy to a range of unit linked insurance funds. These funds include high income, index-tracking, guaranteed growth bonds and rolled-up income funds.

Overseas Market Characteristics and Trends

The scope of the global market for life insurance and investment products is potentially substantial. Clerical Medical anticipates considerable opportunities for growth as state benefits are reduced and more emphasis is placed by governments on personal insurance and pensions. In Europe, the Third EC Life Directive boosted cross-border insurance business and Clerical Medical expects this to continue, creating opportunities for UK insurers to penetrate new markets and vice versa.

In Clerical Medical's view, the European markets are relatively stable structurally, although the Third EC Life Directive has enabled greater local and cross-border competition for the more attractive markets and, as a consequence, led to improved standards of products and services.

Clerical Medical aims to more than double new business from its international operations in Europe within 5 years. This anticipated increase in new business can be linked to a number of factors including:

- (a) the general move of investors away from bonds to equities driven by the rapid fall in bond yields over the last few years
- (b) demographic changes in many European markets driving governments to introduce legislation for private and occupational pensions, such legislation requiring products/concepts more familiar to UK companies than local providers
- (c) Clerical Medical's operation as a cross-border provider, providing a competitive advantage in terms of cost as the European financial services markets converge.

INVESTMENT POLICY

Separate investment policies are in place for the with-profit, unit-linked and non-profit funds and are as described in the following sections.

Clerical Medical Investment Group Limited With-Profit Fund (the "With-Profit Fund")

Subject to helping to ensure the solvency of Clerical Medical and its ability to meet the guarantees it provides on with-profits policies, the With-Profit Fund aims to optimise the return over the longer term, and its policy is to invest a significant proportion in assets such as company shares and property.

The investment strategy depends on:

- CMIG's view of investment markets at the time
- the surplus of assets over liabilities in the With-Profit Fund

- other assets of CMIG held outside the With-Profit Fund
- the guarantees on the policies for which the assets are being invested.

Within asset classes the With-Profit Fund holds a wide range of individual assets to diversify the investment risk. It may use derivatives to help manage the portfolio more cost effectively, more efficiently or to meet regulatory requirements.

CMIG groups policies of similar types and manages pools of assets separately for those groups of policies. Assets backing sterling policies and those backing non-sterling policies are managed separately; the figures below apply to assets backing both sterling and non-sterling policies unless stated.

The With-Profit Fund held assets of £17.4 billion at the end of 2004.

The asset mixes at 31 December 2003 and 31 December 2004 were as follows:

<i>Asset Class</i>	<i>31 December 2003</i>	<i>31 December 2004</i>
Equities	39.9%	40.0%
Fixed Interest	37.1%	38.3%
Property	13.8%	16.2%
Variable Interest.....	1.1%	1.2%
Cash and Other	8.1%	4.3%

Equities

The equity holding of the fund was split by geographical location as shown in the table below:

<i>Geographical location</i>	<i>31 December 2003</i>	<i>31 December 2004</i>
UK	56.9%	58.1%
North America	10.9%	10.0%
Europe	23.9%	24.8%
South East Asia	2.9%	1.6%
Japan	3.8%	3.8%
Rest of World.....	1.6%	1.7%

Fixed Interest

The fixed interest assets backing sterling policies were split as follows:

<i>Moody's Credit Rating/Security</i>	<i>31 December 2003</i>	<i>31 December 2004</i>
Sovereign	62.8%	75.7%
Rated Aaa.....	3.1%	2.9%
Rated Aa	21.2%	5.5%
Rated A	7.9%	8.9%
Rated Baa.....	4.6%	6.7%
Rated Ba and lower	0.4%	0.3%

Unit-Linked Funds

Unit-linked funds are invested in order to optimise the return to the unit holder within the specified objectives of each particular fund. In practice unit-linked liabilities are matched with corresponding unit-linked fund assets, and a small amount of assets is retained in cash to achieve the desired liquidity.

CMIG and each of its life assurance subsidiaries (Clerical Medical Managed Funds Limited and Halifax Life Limited and its subsidiary, St Andrew's Life Assurance plc) have unit-linked funds with combined total assets of £18.3 billion as at 31 December 2004.

Non-Profit Funds

Non-profit funds are invested in order to optimise the return to the shareholder within the agreed risk appetite. In practice non-profit liabilities are matched with fixed interest assets of the appropriate duration, and sufficient assets retained in no notice cash to achieve the desired liquidity.

CMIG and each of its life assurance subsidiaries (Clerical Medical Managed Funds Limited and Halifax Life Limited and its subsidiary, St Andrew's Life Assurance plc) have non-profit funds with combined total assets of £7 billion as at 31 December 2004. Over 95 per cent. of assets in those funds were invested in cash and fixed and variable interest securities as at 31 December 2004.

BONUS POLICY AND PAY OUTS

Clerical Medical's Principles and Practices of Financial Management ("CMPPFM") sets out in detail how Clerical Medical operates its With-Profit Fund and covers areas such as how it sets bonus rates and payouts, invests with-profits assets and balances risk and returns for the with-profits business. The CMPPFM will be kept under review to ensure it remains appropriate. However, the principles are long-term statements of the standards CMIG adopt in managing the With-Profit Fund and advance notice to policyholders is given of changes to them. A new edition is expected to be published on 1 July 2005.

The CMPPFM provides an explanation of how the with-profits business is run, and also forms an important part of the governance arrangements of the UK with-profits business. CMIG runs the With-Profit Fund for the benefit of the policyholders, and where the operation of the With-Profit Fund affects both policyholders and CMIG, CMIG aims to ensure that both are treated fairly. CMIG has a formal framework to ensure that this happens. Every year, the board of directors of CMIG (advised by the with-profits actuary) reviews whether the with-profits business has been run in line with the CMPPFM.

The investment strategy takes account of other assets of CMIG that are kept outside of the With-Profit Fund. These assets allow the fund to invest a significant proportion in higher-risk assets.

Recent bonus rates have been affected by the stock market falls of 2000 to early 2003, forcing a series of cuts in the regular bonus rate up to February 2005. CMIG sets a target rate for regular bonuses based on CMIG's views of future investment returns. This allows a margin for final bonus. Regular bonus rates will stay low for some time, as CMIG takes a long term view of future economic conditions and stock markets are not expected to return to their previous levels in the short term. However, CMIG does not expect to reduce regular bonus rates again under current stock market conditions. Most final bonus rates have been maintained or increased, and market value reduction (which may apply when funds are removed at a time when a guarantee does not apply) rates maintained or reduced, at each six-month review since the stock market low of 2003.

REGULATORY CAPITAL POSITION

Statutory Solvency Position

Information on the financial position of CMIG is contained in each year's Annual Report and Accounts and the annual return filed with the Financial Services Authority (the "FSA") (the "FSA Return"). The FSA is required to monitor the financial position of all UK life assurance companies and requires each to hold sufficient assets to cover its contractual liabilities together with its prescribed capital requirements. CMIG manages its ongoing financial position in such a way that it will continue to meet these capital requirements under a wide range of business scenarios and investment conditions.

There is no single measure that properly summarises the financial strength of a life assurance company, nor that allows direct comparisons of financial strength of different life assurance companies. This is because

valuations of different companies are not on the same bases and the liabilities are not all of the same kind. Nevertheless, one measure often looked at is the Capital Resources Requirement (“**CRR**”) Cover Ratio. The CRR Cover Ratio represents the ratio of the total available assets to the total capital requirements. Following the implementation of the Integrated Prudential Sourcebook (the “**PRU**”) in 2004, changes in the treatment of the Resilience Capital Requirement (“**RCR**”) and the CRR for insurance subsidiaries mean that the CRR is not prepared on a completely consistent basis in 2004 compared to 2003. This is explained further in notes 1 and 2 to the table below. For further details on CRR see “*United Kingdom Regulatory Environment*”.

The following table summarises key figures relating to the solvency of CMIG taken from the published FSA Returns.

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
A Capital Resources available to cover CRR ^{1,3}	1,477	1,751	2,877
B CRR ^{1,2,3}	678	719	1,361
C Excess of available capital resources to cover CRR (A-B) ³	799	1,032	1,516
D Capital Resources Requirement Cover Ratio (A/B)³	218%	244%	211%

Notes:

1. From 31 December 2004 the published solvency position of CMIG includes the CRR of its subsidiaries within its CRR, and the available capital resources of its subsidiaries within its available capital resources. At 31 December 2002 and 31 December 2003 the published solvency position of CMIG included, within the Capital Resources available to cover CRR, the excess capital resources of CMIG’s subsidiaries only. This change has the impact of increasing the CRR at 2004 and hence reducing the CRR Cover Ratio when compared to 2002 and 2003.
2. Prior to 31 December 2004 the RCR was included as a mathematical reserve and not as a capital requirement. Including the RCR as a capital requirement at 2004 has the impact of increasing the CRR and reducing the CRR Cover Ratio in 2004 compared to 2002 and 2003.
3. Prior to 31 December 2004 different headings were used within the FSA Returns to describe the equivalent of these items.
4. The above table shows the financial position of the Group as at 31 December 2004 and 31 December 2003 and has not been adjusted to take account of the issue of the Notes.

At 31 December 2004, CMIG had excess capital resources over its CRR of £1,516 million. This represented an increase of £484 million from the excess capital resources at 31 December 2003. A key reason for the improved position from 31 December 2003 was the relatively strong performance of equity investments during the second half of 2004. Further reasons for the movement in the solvency position between the end of 2002 and the end of 2004 are described below.

The Regulatory Regime

The published solvency positions at 31 December 2002 and 31 December 2003 were calculated in accordance with the FSA’s Interim Prudential Sourcebook for Insurers (the “**IPRU(INS)**”). The published solvency position at 31 December 2004 was calculated in accordance with the PRU, which superseded IPRU(INS) with regard to capital resources with effect from 31 December 2004. The PRU introduced substantial changes to valuation methodology and to the information disclosed within the FSA Returns (these changes are described further in “*United Kingdom Regulatory Environment*”). However, in aggregate these changes had a relatively small impact on the solvency position of CMIG at 31 December 2004.

Contingent Loan, Subordinated Debt and Implicit Items

In 2003 CMIG received a loan of £500 million from HBOS plc, its ultimate parent. This loan was drawn down under a contingent loan facility that exists between the two companies. The repayment of the loan capital and interest is contingent on the solvency position of CMIG meeting certain criteria. For this reason, the loan can be excluded from liabilities for FSA reporting purposes.

The statutory balance sheet for CMIG also includes the benefit of subordinated debt that was raised prior to 31 December 2002. This subordinated debt had a carrying value of £479 million at the end of 2004, £478 million at the end of 2003 and £456 million at the end of 2002. The subordinated debt ranks behind

policyholders' rights on winding-up and the liability to repay the debt can therefore be left out of account when reporting the solvency position of CMIG to the FSA.

For reporting at 31 December 2002 and 31 December 2003, CMIG received waivers that allowed it to include an asset on the statutory balance sheet in respect of some future profits expected to emerge over time. This asset is known as an implicit item. The value of this implicit item was £110 million at the end of 2002 and £53 million at the end of 2003. The granting of implicit item waivers is being phased out by 31 December 2009 and as a result, CMIG chose not to apply for an implicit item waiver to include as at 31 December 2004.

Capital Resources and Capital Requirements

Under the PRU, available capital resources are divided into different categories, or tiers, reflecting the type and quality of the capital. Certain limits are placed on the amount of each type of capital that can be brought into account in different parts of the solvency calculation. At 31 December 2004 these limits did not materially restrict the use of any capital resources within CMIG.

A summary of CMIG's capital resources and capital requirements is set out below:

	<i>31 December 2004</i>
	<u>£'000</u>
Capital Resources	
Total Tier 1	2,372
Upper Tier 2	730
Lower Tier 2	281
Total Capital Resources	3,383
Deductions (inadmissible assets and ineligible surplus)	506
Total capital resources after deductions	<u><u>2,877</u></u>
Capital Requirements	
Minimum Capital Requirement	1,361
With-Profits Insurance Capital Component	0
Total Capital Requirement	<u><u>1,361</u></u>

1. The above table shows the capital resources and capital requirements of the Group as at 31 December 2004 and has not been adjusted to take account of the issue of the Notes.

With-profits Insurance Capital Component ("WPICC")

The PRU requires CMIG to assess the solvency of its With-Profit Fund using the "twin peaks" approach. Under this approach the solvency position of the With-Profit Fund is calculated on a regulatory basis ("**the regulatory peak**") and a realistic basis ("**the realistic peak**") and the total capital requirement for with-profits business is based on the higher of the two peaks. Hence, if the realistic peak is higher than the regulatory peak a WPICC must be held as part of the total company capital requirement. The WPICC is equal to the amount by which the realistic peak exceeds the regulatory peak (see further "*United Kingdom Regulatory Environment*"). For CMIG, the WPICC was zero at 31 December 2004, as the regulatory peak exceeded the realistic peak.

FUTURE

United Kingdom

In Clerical Medical's view, the size of the UK market, coupled with demographic pressures and the increasing awareness of the savings gap, presents a significant opportunity both to grow sales and shareholder returns.

The Group's multi-brand, multi-channel strategy, low cost access to banking customers, efficient administration and strong capital position provides a strong base to leverage the opportunities in the UK.

The Group has successfully harnessed the scale benefits of its multi-brand, multi-channel strategy by simplifying products and migrating to a common processing platform and is well placed to support stakeholder products, selective opportunities arising from the introduction of de-polarisation and the implementation of pensions 'A day' simplification (new pensions legislation which takes effect in the UK on 6 April 2006).

International

Clerical Medical International intends to strengthen and deepen its distribution reach in selected European markets, whilst rapidly diversifying its product offering away from traditional with-profits to unit-linked and other innovative investment products.

This will be supported by a continuing focus on driving through efficiencies from its servicing platform, achieving an ever more competitive scale of operation.

RECENT DEVELOPMENTS

On 17 June 2005 it was announced that Clerical Medical International Holdings BV has reached agreement with MLP AG, the German financial advisor group, to acquire its life assurance business MLP Lebensversicherung AG. Clerical Medical International Holdings BV is a subsidiary of HBOS International Financial Services Holdings Limited which in turn is a subsidiary of HBOS Financial Services Limited. It is therefore a member of the HBOS Financial Services Limited Group but not of the Group. However, CMIG has agreed to enter into a long term agreement to distribute life and pensions products via MLP Finanzdienstleistungen AG, the distribution arm of MLP AG in Germany. The distribution agreement will secure access for CMIG to MLP AG's distribution strength and growth potential in a key European market.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The financial statements of CMIG and its subsidiaries for the year ended 31 December 2004 have been prepared under UK GAAP. The financial statements for the year ending 31 December 2005 will be prepared under IFRS. The main International Financial Reporting Standards which will result in changes in those financial statements from a UK GAAP basis will be:

- IFRS 1 First-time adoption of IFRS
- IFRS 4 Insurance Contracts
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 39 Financial Instruments: Recognition and Measurement

In addition, Financial Reporting Standard 27 ("**FRS 27**") will come into full effect as an accounting standard for the year ending 31 December 2005. The financial statements for the year ended 31 December 2004 included the main disclosures required under FRS 27 under an agreed 'Memorandum of Understanding' with the Accounting Standards Board.

DIRECTORS

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

<i>Name</i>	<i>Responsibilities in relation to CMIG</i>	<i>Other significant directorships</i>
P A Hodkinson	Chairman	HBOS plc The Governor and Company of the Bank of Scotland Halifax plc St James's Place Capital plc HBOS Treasury Services plc Sainsbury's Bank plc Other directorships of HBOS plc subsidiaries
J S Edwards	Managing Director	HBOS Insurance & Investment Group Limited HBOS Financial Services Limited Other directorships in the HBOS Financial Services Limited Group
K W Abercromby	Finance Director	HBOS Insurance & Investment Group Limited HBOS Financial Services Limited Other directorships in the HBOS Financial Services Limited Group
J P Hiew	Executive Director	HBOS Financial Services Limited Other directorships in the HBOS Financial Services Limited Group
R J H Milne	Executive Director	HBOS Financial Services Limited Other directorships in the HBOS Financial Services Limited Group
M S Robinson	Executive Director	HBOS Financial Services Limited Other directorships in the HBOS Financial Services Limited Group
D G R Ferguson	Non-executive Director	Alba Life Holdings Limited Alba Life Limited Halifax Investment Fund Managers Limited HBOS Financial Services Limited Henderson Group plc (formerly HHG plc) Illium Insurance Group Limited Illium Managing Agency Limited Phoenix Assurance Ltd RLG With Profit Holdings Ltd Phoenix Life & Pensions Ltd (formerly Royal & Sun Alliance Life & Pensions Ltd) Phoenix Linked Insurances Ltd (formerly Royal & Sun Alliance Linked Insurances Ltd) Phoenix and London Assurance Company Ltd (formerly Sun Alliance and London Assurance Company Ltd)
M R N Moore	Non-executive Director	Brixton plc Halifax Investment Fund Managers Limited HBOS Financial Services Limited Which? Limited

<u>Name</u>	<u>Responsibilities in relation to CMIG</u>	<u>Other significant directorships</u>
K L Nealon	Non-executive Director	Cable & Wireless plc Halifax Investment Fund Managers Limited Halifax plc HBOS Financial Services Limited HBOS plc The Governor and Company of the Bank of Scotland

The business address of each of the Directors referred to above is 33 Old Broad Street, London EC2N 1HZ.

UNITED KINGDOM REGULATORY ENVIRONMENT

Clerical Medical and a number of companies in the HBOS Group (“**HBOS Group**” means HBOS plc and its subsidiaries) are authorised insurance companies in the United Kingdom. Authorised insurance companies are regulated by the FSA pursuant to its powers under the FSMA. They must comply with the provisions of the FSMA as well as the rules made by the FSA pursuant to its powers under the FSMA. The FSA publishes its rules and its guidance thereto in the FSA handbook. A key part of the FSA handbook applicable to authorised insurance companies is the PRU.

Permission to effect and carry out contracts of insurance

Subject to certain exemptions set out in the FSMA, no person may carry on a regulated activity in the United Kingdom unless authorised by the FSA to do so. A regulated activity includes effecting or carrying out of contracts of insurance. Insurance companies must therefore have specific permissions from the FSA pursuant to Part IV of the FSMA in order to effect or carry out contracts of insurance. The FSA must be satisfied that an applicant meets, and will continue to meet, certain threshold conditions which are set out in the FSMA. In particular, the FSA must be satisfied that the applicant has and will continue to have adequate resources and that it is and will continue to be a fit and proper person having regard to all the circumstances. Such circumstances include whether an applicant’s affairs are conducted soundly and prudently.

In specific circumstances, the FSA may vary or cancel an insurer’s Part IV the FSMA permission to carry on a particular class or classes of business or insurance business generally. The circumstances in which the FSA can vary or cancel a Part IV the FSMA permission include a failure to meet the threshold conditions or where such action is desirable in order to protect the interests of consumers or potential consumers.

Regulatory Reporting

UK insurers must prepare their accounts in accordance with specific provisions of the Companies Act 1985 applicable to them. They are required to file audited financial statements and related reports and provide them to their shareholders. They must separately deposit with the FSA an annual return comprising audited accounts and other prescribed documents within three months of the end of the relevant financial year (if the deposit is made electronically) or within two months and fifteen days of the end of the relevant financial year (if the deposit is made otherwise than electronically). The latest annual accounts and returns for CMIG and its life assurance subsidiary companies covered the 12 month period to 31 December 2004.

Principles and Practices of Financial Management

All UK providers of with-profits life policies are required by the FSA to document and make available the principles and practices of financial management (known as the “**PPFM**”) that describe how they operate their UK with-profits business. The areas that need to be covered in the PPFM are prescribed by the FSA and must be set out in terms of “principles” (enduring statements of the overarching standards that apply) and “practices” (more detailed statements on the current approach adopted). From 2006, such providers are required to report each year to their UK with-profits policyholders on their compliance with the PPFM in the previous year, and any changes or proposed changes to it.

Prudential Regime

The PRU came into effect on 31 December 2004 and largely replaced the previous prudential regime set out in IPRU(INS). However IPRU(INS) continues to regulate certain areas for insurers, including financial reporting requirements.

A UK insurer is required to hold capital resources (PRU sets out what type of capital is able to constitute capital resources) equal to its CRR, which is explained below. The PRU requires an insurer to identify major sources of risk to its ability to meet its liabilities as they fall due, including risks in the categories of credit risk, market risk, liquidity risk, operational risk and insurance risk. The PRU requires insurers to mitigate certain risks by putting into place appropriate systems and controls. Other risks, such as insurance risk,

require an insurer to hold specified capital against such risks. This is known as the CRR. The way in which the CRR is calculated differs depending on whether the insurer carries out general or life insurance business and, in relation to the latter, whether or not it has with-profits liabilities which exceed £500 million.

The CRR for life insurance firms with more than £500 million of with-profits liabilities, is the higher of the Minimum Capital Requirement (the “MCR”) and the Enhanced Capital Requirements (the “ECR”). These are explained below. Such firms are known as “realistic life base firms” and CMIG would fall within this category.

The MCR which must be maintained under the PRU, implements the minimum requirements of the EC Directives relating to regulatory capital. Under the PRU, the MCR is calculated differently for life and for non-life insurance firms. In addition, insurers must comply with additional prudential standards which are set out in the PRU.

The ECR is the enhanced capital requirement which realistic life base firms are required to calculate by reference to a risk based assessment of their capital needs.

Realistic life base firms must determine the ECR they must hold by comparing two different “peaks” – a regulatory peak and a realistic peak. The FSA has termed this the “twin peaks” approach. The regulatory peak consists of mathematical reserves plus the sum of the Long Term Insurance Capital Requirement (the “LTICR”) (being a calculation of capital required to meet specific insurance business risks of the firm) and the Resilience Capital Requirement (the “RCR”) (being capital required to meet certain market risk scenarios which may affect the assets held by the firm). The realistic peak is a calculation of the “realistic” present value of the firm’s expected future contractual liabilities together with fair provision for expected discretionary payments (such as future annual and terminal bonuses), plus an explicit Risk Capital Margin (known as the “RCM”). The RCM is a capital buffer which addresses the risk that market and economic conditions may not turn out as expected. If the calculation of the realistic peak results in a reserving requirement in excess of the regulatory peak, the amount of the excess will give rise to a capital component known as the WPICC. The ECR for that firm will then be the LTICR plus the RCR and the WPICC. If the realistic peak is lower than the regulatory peak, the ECR for that firm will be the MCR only.

For life insurance firms with less than £500 million of with-profits liabilities, the CRR is equal to the MCR. General insurers are required to calculate the ECR and report the result privately to the FSA. However the ECR is not presently a “hard” capital requirement for general insurers.

Details of CMIG’s capital requirements are shown in “*The Business of the Guarantor – Regulatory Capital Position*”.

Financial Groups Directive

The Financial Groups Directive seeks to ensure co-ordinated prudential regulation, in particular solvency requirements, for financial conglomerates (being financial groups which include both banking/investment business and insurance business). The Financial Groups Directive has been implemented in the UK through the PRU. The PRU sets out a process by which a group identifies whether it is a financial conglomerate. A group which is such a financial conglomerate is subject to additional requirements under the PRU to ensure that it is adequately capitalised and that there are adequate systems and controls governing intra-group exposure between the sectors.

Insurance Groups Directive

The Insurance Groups Directive has been implemented in the UK through the PRU. It introduces supplementary supervision arrangements for insurance groups. These arrangements include a supplementary capital calculation which is required to be carried out at the level of the highest European Economic Area insurance holding company. At present, the PRU requires the calculation to be performed and privately reported to the FSA with its annual return. However the FSA has indicated that the calculation will become a so-called “hard” requirement from 31 December 2006. The parent company solvency calculation will be a public reporting requirement from 31 December 2005. A parent company solvency calculation is prepared

in respect of the group of companies headed by HBOS Insurance & Investment Group Limited, which is the parent company of HBOS Financial Services Limited (which, in turn, is the holding company over the Group and the Issuer).

Supervision and enforcement

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

INDUSTRY DEVELOPMENTS

Treating With-Profits Policyholders Fairly

The FSA has completed a review of its rules for the fair treatment of with-profits policyholders. It published final rules and guidance in January 2005 which will regulate the operation of with-profits funds. The majority of the rules will come into force on 30 June 2005, with a transitional period of up to six months to implement the requirements on target ranges and surrender values. The aim of the new rules is to ensure that with-profits policyholders are treated fairly. The final rules and guidance address issues such as fund management charges, fund closure and policyholder protection on a reattribution of inherited estate. The final rules and guidance also provide for the setting of target ranges for maturity payments and require 90 per cent. of maturity payments to fall within the target range. The rules also introduce a new requirement for surrender value payments to be no less in aggregate than that achieved using an asset share approach.

In addition, the rules introduce a requirement to publish Consumer Friendly Principles and Practices of Financial Management (the “CFPPFM”), which are intended to provide information to with-profits policyholders or potential policyholders in a format that they can more readily understand. The requirement to produce a CFPPFM takes effect on 31 December 2005. CMIG expects to publish CFPPFM and updated PPFM in July 2005 which recognise the company’s obligations to treat customers fairly.

Solvency II

A review is under way of EU solvency directives for life insurance companies. As an interim stage in this review, the Solvency I Directive, which took effect from the start of 2004, updated the EU solvency regime created in the 1970s. However, the wider-ranging and ongoing review of EU solvency directives, which is known as “Solvency II”, is a comprehensive project to assess and implement more fundamental changes to the EU solvency regime. It is expected that Solvency II will result in a more risk-based approach, such as that already implemented in the UK through the PRU. However no firm proposals have yet been adopted and the new regime requirements are not expected to be implemented until 2009 at the earliest.

Pensions Simplification

The Government’s proposals for pensions tax simplification introduce a new tax regime for pensions which will take effect from 6 April 2006. This will remove the eight existing tax regimes and associated benefit and contribution limits and replace them with a single universal and simplified regime for tax-privileged pensions savings. CMIG is in the late stage of a substantial development programme to update existing products and introduce new products to support pensions simplification.

Product Guarantees

CMIG has previously written policies with Guaranteed Annuity Options (“GAO’s”). All such options, some of which remain open to further investment, have been reserved for in accordance with regulations on what CMIG considers to be a prudent basis and the major part of the investment risk has been matched by appropriate investments.

CMIG’s main business is with-profit (the With-Profit Fund forms 76 per cent. of total assets for CMIG excluding subsidiaries, and 42 per cent. of the total assets for CMIG including its life assurance subsidiaries; however, with-profits is a very small part of new business being written) and accordingly it provides substantial investment guarantees. Part of the cost of the guarantees may be charged back to other policies in accordance with the CMPPFM. CMIG’s subsidiary life companies write unit-linked investment policies, protection policies and annuities. All guarantees have been reserved for in accordance with regulations on what CMIG considers to be a prudent basis.

Mortgage Endowments

CMIG's main with-profits business has been pensions business, bonds and mortgage endowment business, all sold by IFAs. CMIG's subsidiary Halifax Life Limited wrote unit-linked mortgage endowments from 1995 to 1996 and predominantly PEP and ISA mortgage policies from 1996 to 2001, following which mortgage related business became dominated by protection only policies with no savings element. Both companies have fully participated in the endowment reviews.

TAXATION

The following is a general description of certain United Kingdom tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in the United Kingdom or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective Noteholders should be aware that the particular terms of issue of any further notes may affect the tax treatment of that and other series of notes. The following is a general guide and should be treated with appropriate caution. **Noteholders who are in any doubt as to their tax position should consult their professional advisers.**

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

UK Withholding Tax on UK Source Interest

The Notes which carry a right to interest will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange. On the basis of Her Majesty’s Revenue and Customs’ published interpretation of the relevant legislation, securities which are to be listed on a stock exchange in a country which is a member state of the European Union or which is part of the European Economic Area will satisfy this requirement if they are listed by a competent authority in that country and are admitted to trading on a recognised stock exchange in that country; securities which are to be listed on a stock exchange in any other country will satisfy this requirement if they are admitted to trading on a recognised stock exchange in that country. The London Stock Exchange is a recognised stock exchange for these purposes. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

Payments by Guarantor

If the Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by the Guarantor may not be eligible for the exemption described above.

Provision of Information

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

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

With effect from 6 April 2006 the provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

Other Rules Relating to United Kingdom Withholding Tax

Where interest has been paid under deduction of United Kingdom income tax, 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 any applicable double taxation treaty.

The references to “interest” above mean “interest” as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

EU Savings Directive

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each 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, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent.. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. and Merrill Lynch International (together, the “**Joint Lead Managers**”) and Dresdner Bank AG London Branch (together with the Joint Lead Managers, the “**Managers**”) have, in a subscription agreement dated 22 June 2005 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantor and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.187 per cent. of their principal amount less a combined management and underwriting commission of 0.55 per cent. of their principal amount. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

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

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 United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells 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 commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

- (a) *No offer to public*: it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the FSMA 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 or the FSMA;
- (b) *Financial promotion*: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, or, in the case of the Guarantor would not, if it was not an authorised person, apply to the Issuer or the Guarantor; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered pursuant to the Italian securities legislation and, accordingly, each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Each of the Managers has represented that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy except to “**Professional investors**”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 (“**Regulation No. 11522**”), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998 (“**Decree No. 58**”), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999, as amended, applies, provided however, that any such offer, sale or delivery of Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993 (“**Decree No. 385**”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia*, on the amount of the issue and the characteristics of the securities, applies; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Germany

Each Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “**Act**”) of the Federal Republic of Germany has been or will be published with respect to the Notes and that it will comply with the Act and any other laws and legal and regulatory requirements applicable in the Federal Republic of Germany with respect to the issue, sale and offering of securities. In particular, each of the Managers has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Notes otherwise than in accordance with the Act.

France

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, Notes to the public in France and that offers and sales of Notes in France will be made only to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in Article L.411-2 of the *Code monétaire et financier* and decree no. 98-880 dated 1 October 1998.

In addition, each Manager has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France this Offering Circular or any other offering material relating to the Notes other than to investors to whom offers and sales of Notes in France may be made as described above.

Switzerland

The Notes are not and will not be offered to the public and/or listed in Switzerland. This Offering Circular does not constitute an offering circular within the meaning of Art. 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SWX Swiss Exchange.

The Netherlands

This Offering Circular may not be distributed and the Notes (including rights representing an interest in a Global Note) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in *The Netherlands* (“**Dutch Residents**”) other than to the following entities (hereinafter referred to as “**Professional Market Parties**” or “**PMPs**”) provided they acquire the Notes for their own account and trade or invest in securities in the conduct of a business or profession:

- (a) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (b) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*: “**DNB**”) or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) acting through a branch office in The Netherlands;
- (c) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;
- (d) the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organisations and supranational organisations located in The Netherlands;
- (e) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;
- (f) Netherlands enterprises, entities or individuals with a net equity (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (g) Netherlands subsidiaries of the entities referred to under (i) above provided such subsidiaries are subject to prudential supervision (either directly or indirectly through consolidated supervision at the level of their parent company);
- (h) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (i) such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

All Notes (whether or not offered to Dutch Residents) shall bear the following legend it being acknowledged and agreed that the receipt of this Offering Circular by initial offerees from the Managers shall constitute sufficient notice of the transfer restrictions set out in the following legend:

“THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (“**DUTCH RESIDENTS**”) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 THAT ACQUIRE SUCH NOTES (OR ANY INTEREST HEREIN) FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A BUSINESS OR PROFESSION (“**PMP’s**”)

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT

IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING SUCH NOTE (OR ANY SUCH INTEREST), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO DUTCH RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE."

General

Save for obtaining the approval of the Offering Circular by the UK Listing Authority in accordance with Part VI of the FSMA, no action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 15 June 2005. The giving of the Guarantee of the Notes has been authorised by the resolutions of the Board of Directors and a Board Committee of the Guarantor dated 15 June 2005.
2. There are no legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer or the Guarantor is aware, which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position of the Issuer or the Guarantor and its subsidiaries.
3. There has been no significant change in the financial or trading position of the Issuer or the Guarantor and its subsidiaries since 31 December 2004 and, since such date, save as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of the Issuer or the Guarantor and its subsidiaries.
4. The unconsolidated financial statements of the Issuer and the Guarantor have been audited without qualification for the three financial years immediately preceding the date of this Offering Circular by KPMG Audit plc, Chartered Accountants.
5. The financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the “Act”). Statutory accounts of the Issuer and the Guarantor relating to the years ended 31 December 2002, 2003 and 2004 have been delivered to the Registrar of Companies in England and Wales. KPMG Audit Plc, Chartered Accountants, made a report under Section 235 of the Act in respect of the statutory accounts of the Issuer and the Guarantor in respect of such years. Such reports were not qualified within the meaning of Section 262 of the Act and did not contain a statement under Section 237(2) or Section 237(3) of the Act.
6. Copies of the following documents may be inspected during normal business hours at the offices of Linklaters at One Silk Street, London EC2Y 8HQ during the period of 14 days from the date of this Offering Circular:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the Memorandum and Articles of Association of the Guarantor;
 - (c) the Subscription Agreement;
 - (d) drafts (subject to modification) of the Paying Agency Agreement and, the Trust Deed;
 - (e) the audited and unconsolidated financial statements of the Issuer for the years ended 31 December 2003 and 31 December 2004; and
 - (f) the audited unconsolidated financial statements of the Guarantor for the years ended 31 December 2003 and 31 December 2004.
7. The Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.” The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0222798661 and the common code is 022279866.

The listing of the Notes on the London Stock Exchange will be expressed in euro as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in euro for delivery on the third business day in London after the date of the transaction. It is expected that the Notes will be admitted to the Official List of the UK Listing Authority on 24 June 2005, subject only to the issue of the Temporary Global Note. However, prior to official listing dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules.

SUMMARY FINANCIAL STATEMENTS OF THE GUARANTOR

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CLERICAL MEDICAL INVESTMENT GROUP LIMITED

PROFIT AND LOSS ACCOUNT -TECHNICAL ACCOUNT - LONG TERM BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2004

	<i>Continuing Operations</i>			
	2004		2003	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
EARNED PREMIUMS, NET OF REINSURANCE				
Gross premiums written	3,228.4		3,792.9	
Outward reinsurance premiums	(1,929.2)		(1,778.0)	
Net of reinsurance		1,299.2		2,014.9
INVESTMENT INCOME		1,057.6		356.0
UNREALISED GAINS ON INVESTMENTS		711.6		1,521.6
OTHER TECHNICAL INCOME, NET OF REINSURANCE		2.0		21.9
TOTAL INCOME		<u>3,070.4</u>		<u>3,914.4</u>
CLAIMS INCURRED, NET OF REINSURANCE				
Claims paid				
Gross amount	(2,297.6)		(2,606.9)	
Reinsurers' share	409.1		591.1	
		(1,888.5)		(2,015.8)
Change in provision for claims, net of reinsurance				
Gross amount	0.1		(5.0)	
Reinsurers' share	(3.8)		(0.5)	
		(3.7)		(5.5)
Claims incurred, net of reinsurance		<u>(1,892.2)</u>		<u>(2,021.3)</u>
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE				
Long term business provision, net of reinsurance				
Gross amount	(1,350.9)		(2,290.0)	
Reinsurers' share	1,425.8		1,715.2	
Net of reinsurance		74.9		(574.8)
Provision for linked liabilities, net of reinsurance		(362.8)		(545.8)
NET OPERATING EXPENSES		(287.1)		(337.5)
INVESTMENT EXPENSES AND CHARGES		(74.8)		(71.4)
OTHER TECHNICAL CHARGES, NET OF REINSURANCE		(26.3)		(27.9)
TAX ATTRIBUTABLE TO LONG TERM BUSINESS		(66.6)		(126.7)
TRANSFERS (TO) / FROM THE FUND FOR FUTURE APPROPRIATIONS		(360.4)		(137.2)
TOTAL EXPENDITURE		<u>(2,995.3)</u>		<u>(3,842.6)</u>
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT		<u>75.1</u>		<u>71.8</u>

PROFIT AND LOSS ACCOUNT – NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	<i>Continuing Operations</i>	
	<i>2004</i>	<i>2003</i>
	<i>£m</i>	<i>£m</i>
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT	75.1	71.8
Tax attributable to the balance on the technical account	32.2	30.0
SHAREHOLDERS' PRE-TAX PROFIT ARISING FROM LONG TERM		
INSURANCE BUSINESS	107.3	101.8
Investment income	1.8	25.3
Unrealised gains on investments	253.6	89.2
Investment expenses and charges	(32.5)	(33.5)
OPERATING PROFIT ON ORDINARY ACTIVITIES		
BEFORE TAXATION	330.2	182.8
Tax on profit / (loss) on ordinary activities	(27.6)	(19.6)
PROFIT FOR THE FINANCIAL YEAR	302.6	163.2
Dividends	–	–
RETAINED PROFIT FOR THE FINANCIAL YEAR		
TRANSFERRED TO RESERVES	302.6	163.2

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	2004		2003	
	£m	£m	£m	£m
ASSETS				
INVESTMENTS				
Land and Buildings	2,440.3		2,289.1	
Investment in Group undertakings and participating interests	1,901.1		1,575.8	
Other financial investments.....	16,869.7		16,667.4	
Other – present value of in-force business	344.5		370.8	
		21,555.6		20,903.1
ASSETS HELD TO COVER LINKED LIABILITIES		2,226.8		1,864.0
REINSURERS SHARE OF TECHNICAL PROVISIONS				
Long term business provision	7,078.4		5,652.6	
Claims outstanding	(3.0)		0.8	
		7,075.4		5,653.4
DEBTORS				
Debtors arising out of direct insurance operations	25.9		16.2	
Other debtors	1,055.8		549.2	
		1,081.7		565.4
OTHER ASSETS				
Tangible assets.....	84.5		61.5	
Cash at bank and in hand	–		63.3	
		84.5		124.8
PREPAYMENTS AND ACCRUED INCOME				
Accrued interest and rent	25.6		3.0	
Deferred acquisition costs.....	168.0		153.5	
Other prepayments and accrued income	6.7		3.6	
		200.3		160.1
TOTAL ASSETS		32,224.3		29,270.8

BALANCE SHEET AS AT 31 DECEMBER 2004 (CONT'D)

	2004		2003	
	£m	£m	£m	£m
LIABILITIES				
CAPITAL AND RESERVES				
Called up share capital	1,629.0		1,629.0	
Share premium account.....	1.0		1.0	
Profit and loss account	233.4		(69.2)	
Merger reserve.....	246.2		246.2	
General reserves	611.7		611.7	
SHAREHOLDERS' FUNDS ATTRIBUTABLE TO EQUITY INTERESTS		2,721.3		2,418.7
SUBORDINATED LIABILITIES		479.1		477.8
FUND FOR FUTURE APPROPRIATIONS		497.6		137.2
TECHNICAL PROVISIONS				
Long term business provision	24,618.7		23,267.8	
Claims outstanding	42.4		42.5	
		24,661.1		23,310.3
TECHNICAL PROVISIONS FOR LINKED LIABILITIES		2,226.8		1,864.0
PROVISIONS FOR OTHER RISKS AND CHARGES		245.2		161.8
.....				
DEPOSITS RECEIVED FROM REINSURERS		25.7		50.4
CREDITORS				
Creditors arising out of direct insurance operations	71.3		29.2	
Bank overdraft.....	7.1		-	
Other creditors including taxation and social security	1,286.6		794.0	
		1,365.0		823.2
ACCRUALS AND DEFERRED INCOME		2.5		27.4
TOTAL LIABILITIES		32,224.3		29,270.8

REGISTERED OFFICE OF THE ISSUER

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as to English law:*

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