



CLERICAL MEDICAL

The choice of the professional

Clerical Medical Finance plc

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

£150,000,000

7½ per cent. Undated Subordinated Guaranteed Bonds

Guaranteed on a subordinated basis by

Clerical Medical Investment Group Limited

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

Issue Price: 98.856 per cent.

The issue price of the £150,000,000 7½ per cent. Undated Subordinated Guaranteed Bonds (the "Bonds") is 98.856 per cent. of their principal amount.

Interest on the Bonds will be payable annually in arrear on 5 November in each year, commencing on 5 November, 2000.

Subject to the prior consent of The Financial Services Authority (so long as the same is required), the Issuer may redeem the Bonds in whole at their principal amount, together with accrued interest and Arrears of Interest (if any) (i) on 5 November, 2019 and on each fifth anniversary thereafter (each a "Reset Date") or (ii) at any time if the Issuer or the Guarantor is required to pay additional amounts in respect of United Kingdom taxation.

If the Issuer does not redeem the Bonds on a Reset Date, the rate of interest on the Bonds for the period from such Reset Date to the next following Reset Date will be reset as provided in Condition 4 "Interest".

The Bonds and the obligations of the Guarantor under the guarantee in respect thereof will constitute unsecured obligations of the Issuer and the Guarantor respectively, subordinated in the event of a winding up of the Issuer or, as the case may be, the Guarantor, to the Claims of Senior Creditors (as defined in Condition 3 "Subordinated Guarantee").

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Bonds to be admitted to the Official List.

The Bonds are expected to be assigned, on issue, a rating of A+ by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. and a rating of A1 by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

The Bonds will be represented initially by a temporary global Bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary for Cedelbank and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 5 November, 1999.

The Temporary Global Bond will be exchangeable for a permanent global Bond (the "Permanent Global Bond"), without interest coupons, on or after a date which is expected to be 16 December, 1999 upon certification as to non-U.S. beneficial ownership. Definitive Bonds will be available only in the limited circumstances set out in the Permanent Global Bond.

Barclays Capital

Lehman Brothers

This document comprises listing particulars relating to the issue of the Bonds by Clerical Medical Finance plc (the "Issuer") in accordance with the listing rules made by the London Stock Exchange under Section 142 of the Financial Services Act 1986 (the "FSA") for the purpose of giving information with regard to the issue by the Issuer of the Bonds. The Issuer and Clerical Medical Investment Group Limited (the "Guarantor" or "CMIG") accept responsibility for the information contained in this document. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Bonds to be admitted to the Official List and, in respect of such application, these listing particulars have been approved by the London Stock Exchange pursuant to Section 144(2) of the FSA and delivered for registration to the Registrar of Companies in accordance with Section 149 of the FSA.

No person is authorised to give any information or to make any representation not contained herein in connection with the offering or sale of the Bonds and any information or representation not contained herein must not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers (as defined under "Subscription and Sale" below). Neither the delivery of this document nor any sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof.

This document does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Guarantor or the Managers to subscribe for or purchase, any of the Bonds. The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer, the Guarantor and the Managers to inform themselves about, and to observe, any such restrictions. A further description of certain restrictions on the offering and sale of the Bonds and on the distribution of this document is given under "Subscription and Sale" below.

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

References herein to the "Group" are to CMIG and its subsidiaries taken as a whole.

References herein to "Pounds", "Sterling" and "£" are to the currency of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom") and references to "euro" are to the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities as amended by the Treaty on European Union.

In connection with the Issue, Lehman Brothers International (Europe) Limited may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE BONDS

The following (subject to alteration in the Trust Deed and except for the paragraphs in italic print) is the text of the Terms and Conditions of the Bonds.

The £150,000,000 7% per cent. Undated Subordinated Guaranteed Bonds (the "**Bonds**", which expression shall in these Conditions, where the context so requires, include the Global Bonds (as defined below) and any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of Clerical Medical Finance plc (the "**Issuer**") are constituted by a Trust Deed dated 5 November, 1999 (the "**Trust Deed**") made between the Issuer, Clerical Medical Investment Group Limited (the "**Guarantor**") as guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**", which expression shall be construed in accordance with Condition 1(d)). The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 29 October, 1999. The giving of the guarantee in respect of the Bonds (the "**Guarantee**") was authorised by resolutions of the Board of Directors of the Guarantor passed on 16 September, 1999 and by resolutions of a duly constituted committee of the Board of Directors of the Guarantor passed on 3 November, 1999. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed, which includes the forms of the Bonds both in global and definitive form. Copies of the Trust Deed and the Agency Agreement dated 5 November, 1999 (the "**Agency Agreement**") made between the Issuer, the Guarantor, Citibank, N.A., London as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto) and as calculation agent (the "**Calculation Agent**" which expression shall include any successor thereto), the initial paying agent named therein (such persons and any paying agent from time to time, together with the Principal Paying Agent, being referred to as the "**Paying Agents**") and the Trustee are available for inspection during normal business hours by the Bondholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of each of the Paying Agents. The Bondholders are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds are in bearer form serially numbered in the denominations of £10,000 and £100,000.

(b) Global Bonds

The Bonds are initially represented by a temporary global bond (the "**Temporary Global Bond**") in bearer form, without interest coupons or talons attached, deposited on behalf of the persons entitled to the Bonds with a common depositary (the "**Common Depositary**") for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("**Euroclear**") and Cedelbank on 5 November, 1999. Upon deposit of the Temporary Global Bond, Euroclear or Cedelbank, as the case may be, has credited each such person as aforesaid with a principal amount of Bonds equal to the principal amount thereof to which such person was entitled. Not earlier than 16 December, 1999 the Temporary Global Bond is exchangeable for a further global bond in bearer form, without interest coupons or talons attached (the "**Permanent Global Bond**"). Exchanges of interests in the Temporary Global Bond for interests in the Permanent Global Bond will be effected only upon certification as to non-U.S. beneficial ownership. Save as provided in the Temporary Global Bond, a beneficial owner must exchange his interest in the Temporary Global Bond for an interest in the Permanent Global Bond before payments of principal or interest on the Bonds can be collected. The Temporary Global Bond and the Permanent Global Bond are together referred to as the "**Global Bonds**". The Permanent Global Bond will only be exchangeable for definitive Bonds in certain limited circumstances described in paragraph (e) below. Title to each Global Bond will pass by delivery (without prejudice to paragraphs (c) and (d) below). Subject to paragraphs (c) and (d) below, the bearer of a Global Bond shall (to the fullest extent permitted by applicable laws) be treated as its absolute owner for all purposes (whether or not such Global Bond shall be overdue and notwithstanding any

notice of ownership or writing on such Global Bond or any notice of previous loss or theft of such Global Bond).

(c) *Transfers*

For so long as any of the Bonds is represented by a Global Bond, such Bonds will be transferable in accordance with the rules and procedures for the time being of Euroclear or Cedelbank as appropriate. Title to the definitive Bonds issued in the limited circumstances described in paragraph (e) below will pass by delivery.

(d) *Title*

For so long as the Bonds are represented by a Global Bond, each person who is for the time being shown in the records of Euroclear or Cedelbank as the holder of a particular principal amount of Bonds (in which regard any certificate or other document issued by Euroclear or Cedelbank as to the principal amount of the Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the Issuer, the Guarantor, the Trustee, the Paying Agents and the bearer of the relevant Global Bond as the holder of such principal amount of Bonds (and the expression "**Bondholder**" and references to "**holding of Bonds**" and to "**holder of Bonds**" shall be construed accordingly), for all purposes other than with respect to the payment of principal and interest (including Arrears of Interest as defined in Condition 5(b) below) on such Bonds, the right to which is vested, as against the Issuer and the Guarantor, solely in the bearer of the relevant Global Bond and except that, for the purposes of receiving requests or directions from the holders of Bonds, the Trustee need only have regard to the requests or directions of Euroclear or Cedelbank as holder on behalf of its accountholders.

(e) *Issue of Definitive Bonds*

If (i) any event described in sub-paragraphs (i), (ii) or (iii) of Condition 10(a) occurs and is continuing, or (ii) the Permanent Global Bond is held on behalf of Euroclear or Cedelbank or such other clearing system as shall have been approved by the Trustee and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business, or (iii) the Trustee is satisfied that on the occasion of the next payment in respect of the Bonds the Issuer or the Guarantor would be required to make any deduction or withholding from any payment in respect of the Bonds which would not be required were the Bonds in definitive form, then the Issuer will (at no cost to the Bondholders) issue definitive Bonds, serially numbered, in the denominations of £10,000 and £100,000 each with interest coupons and talons attached on issue (in exchange for the entire Permanent Global Bond) within 30 days of the occurrence of the relevant event described in sub-paragraph (i), (ii) or (iii) of this Condition 1(e). These Conditions, the Trust Deed and the Agency Agreement will be amended, in the case of (ii) or (iii) above, in such manner as the Issuer, the Guarantor and the Trustee may agree to be appropriate or, in the case of (i) above, as the Trustee shall consider to be appropriate, to take account of the issue of the definitive Bonds. Notice of such amendments and of the issue of the definitive Bonds will be given promptly by the Issuer to the Bondholders in accordance with Condition 14.

The Bonds (including the Global Bonds) will bear the following legend: "Any United States person who holds this obligation will be subject to the limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code".

2. **Status and Subordination**

The Bonds constitute direct, unsecured and (save as to subordination) unconditional obligations of the Issuer and rank, and will rank, *pari passu*, without any preference, among themselves.

The Bonds are direct liabilities of the Issuer and are guaranteed by the Guarantor. The Guarantor's obligations under the Guarantee are to be met from, and limited to, assets other than those from time to time representing the long-term fund of the Guarantor. Such assets will include any distributions of surplus from that fund.

Subject to applicable law, no Bondholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer and/or the Guarantor arising under or in connection with the Bonds or the Guarantee and each Bondholder shall, by virtue of being the holder of any Bond, be deemed to have waived all such rights of set-off.

The claims of the Bondholders against the Issuer in respect of payments pursuant to the Bonds will, in the event of the winding-up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors (as defined in Condition 3) of the Issuer.

3. Subordinated Guarantee

The payment of principal and interest in respect of the Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been irrevocably and (save as to subordination) unconditionally guaranteed by the Guarantor, as provided in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor. In the event of a winding-up of the Guarantor, the claims of the Bondholders pursuant thereto will be subordinated in right of payment, in the manner provided in the Trust Deed, to the Claims of all Senior Creditors of the Guarantor.

As used in these Conditions:

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

"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 of the Guarantor) who are (i) unsubordinated creditors of the Issuer or the Guarantor (as the case may be) or (ii) 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 Bondholders.

The liability of the Guarantor under the Guarantee shall in any event not exceed the extent of its assets from time to time existing. No member of the Guarantor, and no other person who is at any time in any way interested in any policy of assurance and/or annuity which has been or shall hereafter be effected with the Guarantor, shall be liable to make any contribution, whether in any liquidation of the Guarantor or otherwise howsoever, to satisfy any claim or demand under or in respect of the Guarantee, whether by the Trustee or by any Bondholder or by any other person for the time being interested under the Guarantee or in any Bond.

On a winding-up of the Guarantor there may be no surplus assets available to meet the claims of Bondholders after the Claims of the Guarantor's Senior Creditors have been satisfied.

4. Interest

(a) Accrual

The Bonds bear interest from 5 November, 1999 (the **"Issue Date"**) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Bonds annually in arrear on 5 November in each year (each an **"Interest Payment Date"**) as provided in this Condition 4.

Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue at the relevant rate in accordance with this Condition 4 to the relevant date (as defined in Condition 8).

Whenever it is necessary to compute an amount of interest in respect of any Bond for a period of less than a full year, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(b) *Initial Rate of Interest*

For the period from and including the Issue Date to but excluding 5 November, 2019, the Bonds bear interest at the rate of 7½ per cent. per annum.

(c) *Reset Rate of Interest*

From and including 5 November, 2019, the rate of interest payable in respect of each Interest Calculation Period (as defined below) (the "**Reset Rate of Interest**") will be the rate per annum which is the aggregate of 3.6 per cent. and the Gross Redemption Yield (as defined below) in respect of such Interest Calculation Period.

"**Benchmark Gilt**" means, in respect of an Interest Calculation Period, such United Kingdom government security having a maturity date on or about the last day of such Interest Calculation Period as the Calculation Agent, with the advice of the Reference Market Makers (as defined below), may determine to be appropriate.

"**Determination Date**" in relation to an Interest Calculation Period means the fifth London Business Day (being a day other than a Saturday or Sunday on which banks are open for business in London), prior to the first day of such Interest Calculation Period, provided that if it is not possible for any reason to determine the Gross Redemption Yield on such day, the Determination Date shall be postponed to the first London Business Day thereafter on which the Calculation Agent determines that it is possible to determine the Gross Redemption Yield, provided that such day occurs before the first day of such Interest Calculation Period. If such day falls on or after the first day of such Interest Calculation Period, that Determination Date shall instead be the London Business Day which is nearest to the first day of such Interest Calculation Period and upon which the Calculation Agent determines that it is possible to determine the Gross Redemption Yield.

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

"**Interest Calculation Period**" means each period commencing on (and including) a Reset Date (as defined in Condition 6(b)) and ending on (but excluding) the next succeeding Reset Date for so long as any Bonds are outstanding.

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

(d) *Publication of Reset Rate of Interest*

The Issuer shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 4 to be given to the Trustee and the Paying Agents and, in accordance with Condition 14, the Bondholders as soon as practicable after its determination but in any event not later than the fourth London Business Day thereafter.

(e) *Determination or Calculation by Trustee*

The Trustee shall, if the Calculation Agent does not at any relevant time for any reason determine the Reset Rate of Interest in accordance with this Condition 4, determine interest in respect of the relevant Interest Calculation Period at such rate as, in its absolute discretion (having such regard as it shall think

fit to the procedure described in paragraph (c)), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Calculation Agent.

(f) Replacement of Calculation Agent

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Calculation Agent by another leading investment, merchant or commercial bank in London. If the appointed office of the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to paragraph (e)) failed duly to determine the Reset Rate of Interest in respect of any Interest Calculation Period as provided in paragraph (c), the Issuer shall forthwith appoint the London office of such other leading investment, merchant or commercial bank as may be approved in writing by the Trustee to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(g) Determinations of Calculation Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4, whether by the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Calculation Agent, the Trustee, the Paying Agents and all Bondholders and (in the absence as aforesaid) no liability to the Bondholders, the Issuer or the Guarantor shall attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

5. Deferral of Payments

(a) Deferral of Payments

If, on any date on which a payment in respect of principal, interest or any other amount in respect of the Bonds is, or would be, but for the provisions of this Condition 5(a), due, either:

- (i) the Guarantor was not Solvent (as defined below) as at the relevant Valuation Date (as defined below); or
- (ii) the Guarantor would not (either by virtue of making such payment itself or by putting the Issuer in funds to make such payment and/or by the Issuer making such payment) be Solvent immediately after such payment (assuming for this purpose that the Guarantor's Solvency immediately prior to making such payment is as determined by its Appointed Actuary (as defined below) as at the relevant Valuation Date),

then such payment (or, in the case of paragraph (ii) above, such part of such payment as would cause paragraph (ii) to be applicable) shall not, subject as provided in paragraph (b) below, be made by the Issuer or the Guarantor and shall not, subject as provided in paragraph (b) below, be due unless the Guarantor shall have obtained Supervisory Consent (as defined below). Prior to the deferral of any payment of principal, interest or any other amount in respect of the Bonds in accordance with the foregoing provisions of this Condition 5(a), the Board of Directors of the Guarantor shall confirm the relevant determination as to Solvency in accordance with paragraph (i) or, as the case may be, (ii) above, which confirmation shall be evidenced by a resolution passed to that effect by the Board of Directors of the Guarantor.

The Issuer shall notify the Trustee and the Bondholders as soon as practicable (and in any event within 10 days) after any due date for payment in respect of which payment of principal, interest or any other amount in respect of the Bonds is deferred of the amount of such principal, interest or other amount due on that date, payment of which is deferred in accordance with this Condition 5(a).

(b) Arrears of Interest

Any interest in respect of the Bonds not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any earlier Interest Payment Date, in each case by virtue of

Condition 5(a), shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". Any Arrears of Interest and any other amount, payment of which is deferred in accordance with Condition 5(a), will automatically become immediately due and payable (without Supervisory Consent) (in full, or in the case of sub-paragraph (i) below, in the relevant part) upon the earliest of:

- (i) the Appointed Actuary determining that the Guarantor would be Solvent after payment of all or any part of the Arrears of Interest or other amount is made (assuming for this purpose that the Guarantor's Solvency immediately prior to making such payment is as determined by the Appointed Actuary as at the relevant Valuation Date);
- (ii) the date fixed for any redemption or purchase of Bonds by the Issuer, the Guarantor or any of their respective subsidiaries (as defined in the Trust Deed) pursuant to Condition 6(a), (b) or (c) or Condition 10(a); and
- (iii) the commencement of the winding-up of the Issuer or the Guarantor.

(c) *No Default*

Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Condition 5(a) shall not constitute a default for any purpose (including, but without limitation, Condition 10) on the part of the Issuer or the Guarantor. Arrears of Interest and any other amount, payment of which is so deferred, shall not themselves bear interest.

(d) *Investigations as to Solvency*

The Guarantor shall procure that an investigation of the Guarantor complying with Section 18 of the Insurance Companies Act 1982 (the "**Act**") is made by the Appointed Actuary as at the end of each of the Guarantor's financial years and that an abstract of the Appointed Actuary's report of that investigation is deposited with the Financial Services Authority in accordance with Section 22 of the Act. Such investigation shall be made as soon as reasonably practicable after the end of each financial year. However, if the Issuer and the Guarantor propose to defer payment of interest due on the Interest Payment Date falling in the next following financial year, the relevant abstract shall be deposited with the Financial Services Authority on or before such Interest Payment Date.

(e) *Definitions*

As used in these Conditions:

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

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

"**Supervisory Consent**" means the consent of the Financial Services Authority to the relevant redemption, payment, repayment, purchase, amendment or modification; and

"**Valuation Date**" means, in respect of any date (the "**Relevant Date**") on which a payment in respect of the Bonds is, or would be, but for the provisions of this Condition 5, due:

- (i) the last day of the Guarantor's most recent financial year; or
- (ii) such later date, if any, falling on or before the Relevant Date (as defined in this Condition 5(e)) (or, if more than one such later date, the latest thereof) as at which an investigation of the Guarantor complying with Section 18 of the Act has been conducted by the Appointed Actuary.

6. Redemption and Purchase

(a) *Redemption for taxation reasons*

If the Issuer satisfies the Trustee at any time immediately before the giving of the notice referred to below that (i) on the occasion of the next payment due in respect of the Bonds either the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts or (ii) on the next Interest Payment Date the payment of interest in respect of the Bonds would be treated, for reasons outside the control of the Issuer, the Guarantor and any affiliate of the Guarantor, as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced), the Issuer may, at its option, having obtained Supervisory Consent and having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds, at their principal amount together with interest accrued to, but excluding, the date of redemption and all Arrears of Interest.

(b) *Redemption on or after 5 November, 2019*

Unless the Issuer shall have given notice to redeem the Bonds under Condition 6(a) on or prior to the expiration of the notice referred to below, the Issuer may at its option, having obtained Supervisory Consent and having given not less than 45 nor more than 60 days' notice to the Trustee and to the Bondholders in accordance with Condition 14 expiring on the relevant Reset Date (as defined below), on 5 November, 2019 or on each fifth anniversary thereafter for so long as any Bonds are outstanding (each such date a "**Reset Date**") redeem all, but not some only, of the Bonds at their principal amount, together with interest accrued to, but excluding, the redemption date and all Arrears of Interest.

(c) *Purchase*

The Issuer, the Guarantor or any of their respective subsidiaries or any holding company of the Issuer or the Guarantor or any other subsidiary of such holding company may, having obtained Supervisory Consent, at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.

(d) *Cancellation*

All Bonds redeemed will be cancelled forthwith and such Bonds may not be reissued or resold. Bonds purchased by the Issuer, the Guarantor or any of their respective subsidiaries may be held or resold or surrendered for cancellation.

7. Payments

(a) *Method of Payment*

Payments of principal and interest on or in respect of Bonds represented by the Permanent Global Bond will be made against presentation of the Permanent Global Bond to, or to the order of, the Principal Paying Agent or, at the option of the holder of the Permanent Global Bond, at the specified office of any other Paying Agent by transfer to a sterling account maintained by the payee with a bank in London.

In no event will interest payments be mailed to an address in the United States (which term as used in these Conditions shall mean the United States of America and its possessions). Payments will be subject in all cases to any applicable fiscal and other laws and regulations.

A record of each payment made on the Permanent Global Bond distinguishing between any payment of principal, interest and Arrears of Interest (or any other amount, payment of which is deferred in accordance with Condition 5(a)) will be made on the Permanent Global Bond by the Paying Agent to which the Permanent Global Bond is presented for the purpose of making such payment and such record shall be *prima facie* evidence that the payment in question has been made.

(b) *Payments to holder of the Permanent Global Bond*

The holder of the Permanent Global Bond (or, as provided in the Trust Deed, the Trustee) is the only person entitled to receive payments of principal and interest (including Arrears of Interest) on the Bonds represented by the Permanent Global Bond and the Issuer and the Guarantor will be discharged by payment to, or to the order of, the holder of the Permanent Global Bond (or the Trustee, as the case may be) in respect of each amount so paid. No person other than the holder of the Permanent Global Bond (or, as provided in the Trust Deed, the Trustee) shall have any claim against the Issuer or the Guarantor in respect of any payments due on the Permanent Global Bond.

(c) *Payments on Business Days*

If the due date for payment of any amount of principal or interest (including Arrears of Interest) in respect of the Permanent Global Bond or any later date upon which the Permanent Global Bond is presented for payment is not at any place of payment a business day, then the relevant holder thereof shall not be entitled to payment at the place of payment of the amount due until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7, "**business day**" means any day (other than a Saturday or Sunday) on which banks are open for business in the relevant place of payment and on which dealings in sterling may be carried on both in London and in such place of payment.

(d) *Paying Agents*

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that they will at all times maintain a Paying Agent having a specified office in London and at least one other Paying Agent having a specified office in a major European city approved by the Trustee. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer, failing which the Guarantor, in accordance with Condition 14.

8. **Taxation**

All payments in respect of the Bonds by the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within the United Kingdom, or any political sub-division of, or any authority in or of, the United Kingdom having power to tax, except where the withholding or deduction of Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond presented for payment:

- (i) by, or on behalf of, a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or (b) is liable to such Taxes in respect of the Bond by reason of his having some connection with the United Kingdom other than the mere holding of the Bond; or
- (ii) more than 30 days after the relevant date (as defined below) except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days assuming that day to have been a business day (as defined in Condition 7(c)); or
- (iii) in the United Kingdom.

In these Conditions, "**relevant date**" means the date on which the payment in respect of the Bonds first becomes due but, if the full amount of the moneys payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the moneys

having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

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

9. Prescription

Claims against the Issuer and the Guarantor for payment of principal and interest (including Arrears of Interest, if any) in respect of the Bonds shall become void 10 years and five years, respectively, after the applicable relevant date (as defined in Condition 8) and thereafter any principal, interest or other sums payable in respect of the Bonds shall be forfeited, and revert to the Issuer or the Guarantor, as applicable.

10. Events of Default and Enforcement

(a) Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall (but, in each case, subject to paragraph (d) below), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly immediately become, due and repayable at their principal amount together with accrued interest thereon and all Arrears of Interest if:

- (i) (subject to the provisions of Condition 5) default is made for a period of seven days or more in the payment of any interest due in respect of the Bonds or any of them; or
- (ii) the Guarantor's authorisation under the Act is "**finally withdrawn**" (as defined in the Trust Deed); or
- (iii) an order is made or a resolution is passed for the winding-up of the Issuer or the Guarantor (other than a winding-up which has been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders).

(b) Proceedings for Winding-up

If the Bonds become due and repayable (whether pursuant to paragraph (a) above, Condition 6 or otherwise), the Trustee may at its discretion institute proceedings for the winding-up of the Issuer and/or the Guarantor, but may take no further 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 Bonds. No payment in respect of the Bonds may be made by the Guarantor pursuant to paragraph (a) above, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Guarantor, save with prior Supervisory Consent.

(c) Enforcement

Without prejudice to paragraphs (a) and (b) above, if the Issuer or the Guarantor breaches any of its obligations under the Trust Deed or the Bonds (other than any obligation for the payment of any principal or interest (including Arrears of Interest, if any) in respect of the Bonds) then and/or at any time after the Bonds become due and repayable the Trustee may, subject as provided below, at its discretion and without further notice bring such proceedings as it may think fit to enforce the obligation in question. Neither the Issuer nor the Guarantor shall, as a result of the bringing of any such proceedings, be obliged to pay any sums representing or measured by reference to principal or interest (including Arrears of Interest, if any) on the Bonds sooner than the same would otherwise have been payable by it.

(d) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in paragraphs (a), (b) and/or (c) above to accelerate and/or enforce the obligations of the Issuer and/or the Guarantor in respect of the Bonds or any other proceedings or action pursuant to or in connection with the Trust Deed or the Bonds unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter of the principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction.

(e) Rights of Bondholders

No Bondholder shall be entitled to proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become so bound to proceed, fails to do so within a reasonable period and such failure shall be continuing and then only in the name of the Trustee and on giving an indemnity satisfactory to the Trustee and only to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so. No Bondholder shall be entitled to institute proceedings for the winding-up of the Issuer and/or the Guarantor, or to prove in such a winding-up, except that if the Trustee, having become bound to proceed against the Issuer and/or the Guarantor as aforesaid, fails to do so, or being able to prove, fails to do so in such a winding-up (in each case, within a reasonable period) and such failure is continuing, then any holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in such a winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so.

11. Substitution

The Trustee may, without the consent of the Bondholders, agree with the Issuer and the Guarantor to the substitution of the Guarantor or of any other wholly-owned subsidiary of Clerical Medical Investment Group (Holdings) Limited or any wholly-owned subsidiary of the Guarantor in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds and the Trust Deed subject to (i) except in the case of the substitution of the Guarantor, the Bonds being unconditionally and irrevocably guaranteed by the Guarantor on like terms as to subordination to those of the Guarantee, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced thereby and (iii) certain other conditions set out in the Trust Deed being complied with.

12. Transfers of Business

If the Guarantor shall transfer all or a substantial part of its long-term business to another body in accordance with Part I of Schedule 2C to the Act, the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such body all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee, without any prior approval thereof being required from the Trustee or the Bondholders, and references to the Guarantor herein shall be construed accordingly.

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

13. Replacement of Bonds

Should any Bond be 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 the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

14. Notices

Notices regarding the Bonds will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. Any such notice shall be deemed to have been given on the date of publication or, if so

published more than once or on difference dates, on the date of the first publication. It is expected that publication will normally be made in the *Financial Times*. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

15. Meetings of Bondholders, Modification, Waiver and Authorisation

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the dates on which interest (including Arrears of Interest) is payable in respect of the Bonds or the circumstances in which the payment of interest (including Arrears of Interest) or other amounts may be deferred, (ii) to reduce or cancel the principal amount of or interest (including Arrears of Interest) on, or to vary the method of calculating the rate of interest in accordance with Condition 4(c) on, the Bonds, (iii) to change the currency of payments on the Bonds, (iv) to modify the provisions of Condition 2, 3 or 12, (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (vi) to modify or cancel the Guarantee, in which case, the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed in accordance with the provisions of the Trust Deed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting.

The Trust Deed provides for a resolution in writing signed by or on behalf of the holder or holders of not less than 90 per cent. of the principal amount of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

(b) Modification, Waiver and Authorisation

The Trustee may agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. The Trust Deed contains provisions permitting but not requiring the Trustee to agree, without the consent of the Bondholders, on or after the Specified Date (as defined below) to such modifications to the Bonds and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the sterling principal amount of the Bonds and associated reconventioning, renominatisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with then applicable market conventions) provided that the Issuer shall be under no obligation to make any such proposals. For these purposes, "**Specified Date**" means the date on which the United Kingdom participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community or otherwise participates in European economic and monetary union in a similar manner.

(c) Exercise of Powers by the Trustee

In connection with the exercise by it of any of its trusts, powers or discretions (including, but not limited to those in relation to, any proposed modification, waiver, determination, authorisation or substitution as aforesaid), the Trustee shall have regard to the general interests of the Bondholders as a

class and shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders (whatever their number) resulting from their being for any purposes domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders, except to the extent already provided for in Condition 8 and/or in any undertakings given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) Supervisory Consent

No modification to the 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 Supervisory Consent shall have been obtained.

(e) Binding on Bondholders

Any modification, waiver, authorisation, determination or substitution shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

17. Further Issues

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

18. Governing Law

The Trust Deed (including the Guarantee) and the Bonds are governed by, and will be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds are expected to amount to approximately £147,306,500 and will be lent by the Issuer to the Guarantor on similar terms as to interest, repayment and subordination as those applicable to the Bonds. The Guarantor will use the proceeds thereof to fund the business and commercial activities of the Group.

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 Clerical Medical Investment Group (Holdings) Limited.

As at the date of this document, the authorised share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each, all of which have been issued and fully paid.

The business of the Issuer is to act as a finance company of the Guarantor. The Issuer has not undertaken any activities since its incorporation other than in connection with the issue of the Bonds and has not prepared any accounts.

The directors of the Issuer are Robert Walther and Roland Ward. Each of them is an executive director. The principal activities performed by each of them outside the Group which are or may be significant to the business of the Group are listed on page 27.

The registered and head office of the Issuer and the business address of each of the directors for matters relating to the Issuer's business is 15 St James's Square London SW1Y 4LQ.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation and indebtedness of the Issuer as at 15 October, 1999 extracted without material adjustment from the Issuer's financial statements.

	£
Share Capital	
(50,000 ordinary shares of £1 each)	50,000
Total Capitalisation	50,000

Notes:

- (1) As at 15 October, 1999 the Issuer had no contingent liabilities.
- (2) There has been no material change in the capitalisation, indebtedness or contingent liabilities of the Issuer since 15 October, 1999.
- (3) The bonds now being issued are the Issuer's £150,000,000 7% per cent. Undated Subordinated Guaranteed Bonds.

ACCOUNTANTS' REPORT ON THE ISSUER



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB

The Directors
Clerical Medical Finance plc
15 St James's Square
LONDON
SW1Y 4LQ

The Directors
Clerical Medical Investment Group Limited
15 St James's Square
LONDON
SW1Y 4LQ

3 November, 1999

Dear Sirs

Clerical Medical Finance plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 3 November, 1999 of Clerical Medical Finance plc ("the Company").

Basis of preparation

The financial information set out in paragraphs 1 to 3 is based on the financial statements of the Company from incorporation to 15 October, 1999 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of the Company.

The Directors of the Company and the Directors of Clerical Medical Investment Group Limited are responsible for the contents of the Prospectus dated 3 November, 1999 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company at 15 October, 1999.

1. Balance sheet

	As at 15 October, 1999
	£
Current assets	
Cash	50,000
Net assets	50,000
Capital and reserves	
Called up share capital	50,000
Equity shareholders' funds	50,000

2. Cash flow statement

	Period ended 15 October, 1999
	£
Financing	
Proceeds of share issue	50,000
Increase in cash in the period	50,000

3. Notes

3.1 The Company was incorporated on 24 September, 1999. The Company has not yet commenced business, no audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.

3.2 Basis of preparation

The financial information has been prepared in accordance with applicable UK accounting standards, using the historical cost convention.

3.3 Share capital

The authorised share capital at 15 October, 1999 comprised 50,000 shares of £1 each, all of which have been issued and fully paid.

3.4 Subsequent events

There have been no events subsequent to 15 October, 1999 which require adjustment to the amounts included in the financial information.

Since 15 October, 1999 the Company has incurred expenditure of approximately £175,000 on legal and professional fees in connection with the proposed issue of the bonds. These costs will be paid either by the Company out of the proceeds of the proposed issue of the bonds or by Clerical Medical Investment Group Limited.

Yours faithfully

KPMG Audit Plc

THE GUARANTOR

HISTORY

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 31st December, 1996, the business of Clerical, Medical and General Life Assurance Society was transferred to Clerical Medical Investment Group Limited ("CMIG") and was simultaneously acquired by Halifax Building Society which, on 2nd June, 1997, transferred its business to Halifax plc. A corporate restructuring on 1st 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.

CMIG, together with its subsidiaries, continues to trade under the name of the Clerical Medical Investment Group or "Clerical Medical".

CONSTITUTION OF CMIG

CMIG was incorporated as a private company with limited liability under the laws of England on 2nd May, 1996. The registered office of CMIG is 15 St James's Square, London SW1Y 4LQ. The memorandum and articles of association form the constitutional documents of CMIG.

CMIG's authorised share capital is 150,000,000 shares of £1 each, 70,000,000 shares of which have been issued and fully paid. CMIG is wholly owned by Clerical Medical Investment Group (Holdings) Limited which, in turn, is wholly owned by Halifax Group plc.

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 31st December, 1998 as extracted without material adjustment from CMIG's annual audited accounts.

	As at 31st December, 1998
	<u>£'000</u>
Total borrowings	NIL
Contingent Liabilities	
Uncalled liabilities on investments	26,651
Total Contingent Liabilities	<u>26,651</u>
Shareholders' Equity	
Share capital	
Authorised: 150,000,000 ordinary shares of £1 each	150,000
Issued and fully paid: 70,000,000 ordinary shares of £1 each	70,000
Profit and loss account	12,800
General reserves	<u>611,700</u>
Total Shareholders' Equity	<u>694,500</u>

Notes:

1. There has been no material change in the authorised or issued share capital, or in the borrowings of CMIG since 31st December, 1998. Other than an increase in CMIG's uncalled liabilities on investments to £50,318,000 as at 30th September, 1999, there has been no material change in CMIG's contingent liabilities since 31st December, 1998.
2. The table has not been adjusted to take account of the issue of the Bonds.
3. Amounts in currencies other than sterling have been translated into sterling at the rates of exchange prevailing at the close of business on 31st December, 1998.
4. All intra-Group loans are excluded from the above table.
5. There is a contingent liability for all life assurance companies to pay levies to the Investors Compensation Scheme towards the cost of compensating investors who had been sold policies by authorised independent financial advisers and who are unable to obtain redress elsewhere following the SIB review of pension transfers and opt-outs. It is not presently possible for the Guarantor to assess the extent of this contingent liability.

THE BUSINESS OF THE GUARANTOR

NATIONAL OPERATIONS

The Group's UK activities are run from three head office sites: in London, Bristol and Clevedon. The branch network consists of 16 Independent Financial Advisers ("IFA") Sales Offices nationwide with a further IFA sales office in Jersey. The Group's principal office is in London at 15 St. James's Square, London SW1Y 4LQ, with its administrative headquarters in Bristol and Clevedon.

Product and service overview

CMIG's principal operations consist of the provision of long-term insurance and associated investment products and services comprising three main areas of activity: insurance business, investment management and unit trusts.

Insurance business

CMIG insurance business comprises the underwriting, marketing and administration of long-term business, together with the internal investment activity associated with that business. The two product areas are:

- (1) life assurance 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.

CMIG provides a wide range of insurance-based products. The main product lines are summarised below:

Life protection policies

With-profits whole life policies
Unitised whole life policies
Traditional term assurance policies

Life savings products

Unitised regular savings plans
Traditional with-profits endowments
Traditional mortgage endowments
Unitised mortgage endowment products

Life investment products

Unit-linked investment bonds
With-profits bonds
Distribution bonds
Annuity/endowment plans

Annuities

Life and temporary annuities
Pension annuities to retirements from
Clerical Medical schemes

Individual Pensions

Personal and 'executive' pensions
Free standing AVC plans
Transfer plans
Trustee investment bonds
SSASs
'Phased Retirement' plans
Pension broker funds
SIPP (via James Hay Pensions Trustees Limited)

Group Pensions

Final salary pensions
Money purchase pensions
Group personal pensions
AVC plans
Group protection
Managed funds

Clerical Medical's UK customers can also invest in several of the Group's offshore products.

Clerical Medical has over 190 active funds, the range of which are summarised below:

- Packaged funds (low, medium and high risk mixes of equity, cash and fixed interest);
- Cash, equity, gilt/fixed interest and property funds;
- Far East, Japan, South East Asia, North America and European funds;
- International, indexed securities and special situation funds;
- Derivative-based guaranteed and smoothed funds; and
- Unitised with-profits products (predominantly backed by UK equities).

Investment Management

CMIG's investment management business involves the management of life funds and third party segregated pension funds, together with associated administrative support.

CMIG has substantial third party funds under management in both the corporate and personal sectors.

The Group's two principal UK corporate pension fund management services are Pension Fund Management and Managed Funds.

Pension Fund Management ("PFM") provides a flexible investment management service for segregated third party pension funds. The service is targeted at funds with a portfolio in excess of £20 million, and investments are managed individually, on a fully discretionary, benchmark or specialised investment basis.

At 31st December, 1998, PFM had £3.0 billion of funds under management in 38 active funds.

CMIG also manages segregated funds for Halifax Financial Services ("HFS") through a subsidiary, Clerical Medical Investment Management Limited. The value of funds managed for HFS has grown to £0.7 billion as at 31st December, 1998 from £0.2 billion at the end of 1997.

The Managed Funds' activities are carried out by Clerical Medical Management Funds Limited ("CMMF"), a wholly-owned subsidiary of CMIG, which provides a unit linked insurance contract available to trustees of pension schemes. The assets of the funds available for linking to the policy are managed on a pooled basis. Full administration, actuarial and documentation services are also offered as optional services. CMMF funds under management at the end of 1998 were £2.3 billion.

Unit Trusts

CMIG manages and markets a range of unit trust and unit trust-based ISA investment products to third parties. It also manages existing PEP schemes. CMIG's unit trust activities are conducted through Clerical Medical Unit Trust Managers Ltd ("CMUTM"). Funds under management have grown from £308 million at the end of 1990 to a total of £544m at the end of 1998. CMIG will be converting all its unit trusts to an Open Ended Investment Company ("OEIC") in the first quarter of 2000.

CMUTM manages seven UK and two international unit trust funds, which invest in the UK, North America, South East Asia, Europe and Japan. Products provided include lump sum and regular savings flexible ISA plans, and unit trust savings plans.

DISTRIBUTION

CMIG has historically distributed its range of products predominantly through the IFA channel in the UK.

The IFA Channel

CMIG has a strong presence in the IFA channel and has built its share to 5 per cent. As at the end of December 1998, 19 per cent. of CMIG's IFA business came from national brokers (nationwide IFA firms), 20 per cent. from national networks, 58 per cent. from regional IFAs and 3 per cent. from other IFAs.

CMIG services the UK IFA channel with a network of 110 regional and national accounts consultants, 13 telesales consultants, 3 investment specialists, 18 pensions specialists and 11 international business specialists. National Account Managers deal at a senior level with the large national firms of IFA and specialist advisers are also available to advise IFAs on the more complicated investment and pensions products.

CMIG regularly tracks its service performance with IFAs and the Taylor Nelson-Sofres survey shows a steady improvement over the past three years. This is supported by the individual surveys conducted by the leading IFAs.

Distribution: future developments

Long term plans for extending Clerical Medical's penetration in the IFA channel are based on the Customer Relationship Programme. This is designed to establish and maintain profitable long term relationships with IFAs (in the retail and wholesale markets) by developing mutually beneficial business plans. This recognises the trends in the market to increased co-operation between major providers and IFAs and the need to deliver services to IFAs and their clients which add value over and above competitive products and provides effective investment performance. Such services, in support of Clerical Medical's business, include database and direct marketing, technical financial planning advice, administration teams dedicated to individual IFAs and client teams supporting the major fund management clients. In addition extensive training, support of company pension schemes and marketing support is also available.

This is supported by extensive training of the sales force and the development of a customer and IFA database designed to more effectively target current and potential IFA clients.

Positioning, brands and customers

Clerical Medical positions itself in its core UK market as the "Choice of the Professional", a stance designed to reflect its existing and targeted customer base, its corporate history and its distribution channel. The target market of 'professionals', which Clerical Medical defines attitudinally, is intended to include modern 'professionals' (for example market researchers, management consultants, computer programmers) as well as the more traditional professions such as doctors, lawyers and accountants. Retired professionals, who have high disposable income and have carried their professional values with them into retirement, are also targeted. This group of high net worth individuals have high holdings of life assurance and, particularly, investment products. Clerical Medical has been successful in maintaining a customer base with a high socio-economic profile.

The Group operates under a single brand "Clerical Medical" in UK and overseas markets. Clerical Medical has achieved a satisfactory degree of consumer awareness, due to successful television advertising campaigns mounted since 1990. Prompted awareness amongst the target group at the end of April 1999 was 70 per cent.

Amongst IFAs, the Group has long enjoyed a prominent profile and has developed an excellent reputation for the quality of its IFA consultant sales force. In recent years, Clerical Medical's IFA sales consultants have been consistently rated in the top quartile in the annual Taylor Nelson-Sofres survey and in 1998 held third position.

INTERNATIONAL OPERATIONS

CMIG's international activities are conducted through its own international life division and two subsidiaries. CMI Insurance Company Limited ("CMI") is incorporated in and managed from the Isle of Man and sells products in Hong Kong, the United Kingdom, the Channel Islands and to expatriates worldwide. CMI Insurance (Luxembourg) SA, which is incorporated in and managed in Luxembourg sells life investment products in Germany and Belgium under the provisions of the Third Life Directive and also sells products to the Channel Islands. CMIG itself also sells life investment products through branches in Hong Kong and the Isle of Man and under the Third Life Directive in Europe through a branch in Maastricht.

International Product and Service Overview

CMI has its own range of products and services available for overseas clients, some of which are also available in the UK, including:

- Regular premium savings plans;
- Single premium bonds, personally-selected portfolio bonds and switchable fund bonds, all available with or without life cover attached;
- Regular premium unit-linked retirement plans; and
- Single premium annuities.

Many of the above products offer the investor a choice of linking the policy to CMI's range of open-ended funds and sub-funds based in the Isle of Man and Luxembourg. These funds include high income, index-tracking, guaranteed growth (smoothed-yield) bonds, rolled-up income and "Universe, the CMI Global Network Fund".

Investment management services

The Group's investment management services for overseas clients are targeted at high net worth individuals and are principally offered through CMI's Universal Management Service (UMS). UMS is a discretionary managed portfolio service available in sterling, US dollars or Irish punts. It invests in the sub-funds of CMI's Luxembourg-based Universe fund, and offers three risk-graded managed portfolios; each structured for capital growth and backed by an investment guarantee on death.

International distribution

CMI uses a worldwide network of independent brokers known as the Master Distributors and has accepted business from a wide range of countries but is now focused on the UK, Europe and Hong Kong.

Overseas market characteristics

The scope of the global market for life insurance and investment products is vast. There are considerable opportunities for growth as state benefits are reduced and more emphasis placed by governments on personal insurance and pensions. Legislative trends differ according to region; in Europe, the Third EC Life Directive boosted cross-border insurance business and this is expected to continue, creating opportunities for UK insurers to penetrate new markets and *vice versa*. In developing markets, however, legislation is generally moving towards the imposition of the requirement to obtain authorisation in the country in question in order to develop business there.

Overseas market trends

In Clerical Medical's view, the European markets are relatively stable structurally, although there is no doubt that the Third 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. The marketplaces vary in their growth prospects from countries such as France (generally held to be a more mature market) to Italy (where a combination of relatively high disposable incomes and an underdeveloped market argue for considerable growth prospects). Most European countries' individual and institutional markets are relatively unsophisticated compared to the UK due to lack of competition, differing regulation and other factors such as historically high levels of nationalisation.

Demographic trends would tend to favour the development of a more substantial personal pensions market, with the result that this product sector may offer greater opportunity than life products. Whilst there have historically been few access points to European markets for UK insurers, the number of specialist brokers selling to high net worth customers is increasing, and some UK companies are beginning to use broader European broker networks to sell specially-designed products into Continental markets.

Clerical Medical's overseas market shares

The size and diversity of the global markets that Clerical Medical operates in preclude a meaningful assessment of worldwide market shares. Within its peer group of UK life offices with international business, however, Clerical Medical has established a high profile in unit-linked and smoothed-yield products.

BRANDING AND POSITIONING

The Group operates two brands internationally, the principal "Clerical Medical" brand and CMI. Clerical Medical's strong offshore market share outlined above is matched by its brand profile amongst distributors. In 1997, CMI became the overall winner of the International Money Market IFA awards survey for the third year running, being placed 1st for service on Administration, 1st for service on Sales and 1st for Product Design. In 1998, CMI won the OFFEX award (from Offshore Financial Review) as Best Investment Bond Provider and International Protection Provider. In 1999, CMI was voted the best offshore provider in the Personal Investment Marketing Show awards.

In 1992, CMI Insurance Company became the first insurance company, and the first Isle of Man company, to win the Queen's Award for Export Achievement.

FUTURE

United Kingdom

Clerical Medical is well positioned in the UK to grow its business and market share. Since 1995, new business sales have more than doubled as a result of improvements to product development and marketing processes, substantial enhancements to customer service performance and re-organisation of the sales force. This is part of a wider change management programme which is designed to establish Clerical Medical as a top five provider to the IFA channel.

Business transformation is concentrating on people, culture, processes and effectiveness. It is split into a number of programmes which are delivering benefit in terms of cost reduction, speed to market, operational efficiency and revenue creation. As a result, Clerical Medical is well placed to play a major part in the delivery of Stakeholder pensions and significant changes in other product markets will follow. This will enable Clerical Medical to support those IFAs who continue to operate in the pensions market, particularly if added value services become an important part of the overall proposition. The approach to successfully building market share through IFAs is covered in "Distribution: future developments" above.

In the UK, concentration on the IFA channel places Clerical Medical at the core of high net worth clients who invest substantial sums in pensions and investment products. Despite the fact that the market is changing, particularly with regard to electronic delivery, it is clear that there will be a high level of demand for advice, especially as an increasing percentage of the population recognise the need to provide for their long term financial future. IFAs and Clerical Medical are very well placed to exploit this rising trend in financial awareness and demand.

International

Clerical Medical's international business was substantially re-shaped in 1996/97. It is now focused on a small number of profitable markets and has delivered impressive sales and profits. In addition, Clerical Medical has maintained its leading position in the UK off-shore market, which accounts for around 30% of new business. This diversified mix of business between the UK and European markets, provides a strong base upon which to grow and to take advantage of the economic integration of Europe as it proceeds. Few UK based life and pensions providers will be able to benefit from experience of operating in European markets, which will eventually provide for a major expansion of existing UK and European business.

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 CMIG.

Name	Responsibilities in relation to CMIG	Other significant directorships
John Lockhart Wood	Chairman	Halifax Group plc (Vice Chairman) Halifax plc (Vice Chairman) Bibby Line Group Ltd. (Director) Harrowden Developments Limited (Director)
Robert Walther	Chief Executive	Fidelity European Values PLC The Fleming Claverhouse Investment Trust PLC Pension Advisers Support System Limited PASS Review Limited PASS Loans Limited
Gillian Elizabeth Camm	Business Transformation Director	The Harbourside Centre Limited
John Stephen Edwards	Marketing & Sales Director	Origo Services Group Limited
Roland Ward	Financial Director	Drake Management Services Limited
Malcolm Argent	Non-executive Director	None
James Robert Crosby	Non-executive Director	Halifax Group plc (Chief Executive) Halifax plc (Chief Executive)
Michael Rodney Newton Moore	Non-executive Director	Linx Printing Technologies plc Quicks Group plc Which? Limited Public Concern at Work Brixton Estate plc Michael Moore Limited Floribunda (Belgravia) Limited
Peter Louis Michael Sherwood	Non-executive Director	Halifax Group plc (Director) Halifax plc (Director) ASW Holdings plc (Director) Bristol Chamber of Commerce and Initiative (Director) City of Bristol Broadcasting Company Ltd (Director) EBC Group plc (Deputy Chairman) Harbourside Centre Limited (Chairman) The First Ireland Investment Company Ltd (Director) The Harbourside Foundation Ltd (Director) At Bristol Ltd (Deputy Chairman) Wessex Water Services Limited (Director)
Malachy Paul Smith	Non-executive Director	Integrated Business Exchange Ltd. E-pact Technologies National Concert Hall

The business address of each of the Directors referred to above is 15 St James's Square, London SW1Y 4LQ with the exception of John Lockhart Wood, James Robert Crosby and Peter Louis Michael Sherwood for each of whom the business address is Trinity Road, Halifax, West Yorkshire HX1 2RG.

**FINANCIAL INFORMATION RELATING TO
THE GUARANTOR**

Set out on pages 29 to 46 of this document are extracts from the audited accounts of CMIG for the year ended 31st December, 1998 reproduced from CMIG's Annual Report and Accounts for the year ended 31st December, 1998 (the "Accounts"). The financial information has been extracted without material adjustment from the Accounts. Accordingly, references to page numbers below are references to page numbers of the Accounts (including pages not reproduced in this document).

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31st December, 1998
TECHNICAL ACCOUNT – LONG-TERM BUSINESS

	Notes	Continuing operations 1998		Continuing operations 1997	
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
– Gross premiums written	2	2,207.6		1,539.4	
– Outward reinsurance premiums		(217.6)		(157.4)	
– Net of reinsurance			1,990.0		1,382.0
Investment income	4		830.4		822.4
Unrealised gains on investments			903.8		897.3
Other technical income, net of reinsurance	5		1.9		7.4
Total Income			3,726.1		3,109.1
Claims incurred					
Claims paid					
– Gross amount		1,143.3		968.6	
– Reinsurers' share		(1.0)		(0.8)	
– Net of reinsurance			1,142.3		967.8
Change in provision for claims					
– Gross amount		(3.5)		2.9	
– Reinsurers' share		—		—	
– Net of reinsurance			(3.5)		2.9
Claims incurred, net of reinsurance	6		1,138.8		970.7
Change in other technical provisions, net of reinsurance					
Long-term business provision					
– Gross amount		2,106.5		1,364.9	
– Reinsurers' share		(236.3)		(85.9)	
– Net of reinsurance			1,870.2		1,279.0
Provision for linked liabilities, net of reinsurance			129.9		63.0
Net operating expenses	8		112.7		133.3
Investment expenses and charges	9		56.5		52.5
Tax attributable to long-term business	13		80.5		95.1
Transfers to the fund for future appropriations	22		347.9		493.3
Total Expenditure			3,736.5		3,086.9
Balance on the technical account – long-term business			(10.4)		22.2

The Notes on pages 32 to 46 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31st December, 1998
NON TECHNICAL ACCOUNT

	Notes	Continuing operations	
		1998	1997
		£m	£m
Balance on the technical account — long-term business		(10.4)	22.2
Tax attributable to the balance on the technical account		0.8	(6.6)
Shareholders' pre-tax (loss)/profit arising from long-term insurance business		(9.6)	15.6
Investment income		—	—
Operating (loss)/profit		(9.6)	15.6
Other charges, including value adjustments		—	—
(Loss)/profit on ordinary activities before taxation		(9.6)	15.6
Tax on (loss)/profit on ordinary activities	13	(0.8)	6.6
(Loss)/profit for the financial year		(10.4)	22.2
Dividends		—	—
Retained (loss)/profit for the financial year		(10.4)	22.2

A statement of the movement on reserves is shown in Note 21 to the Accounts on page 44.

The Company had no recognised gains or losses other than the result for the period shown above. The inclusion of unrealised gains and losses to reflect the marking to market of investments is not deemed to be a departure from the unmodified historical cost basis of accounting, and a separate note of historical cost profits and losses is therefore unnecessary.

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

The Notes on pages 32 to 46 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
BALANCE SHEET AS AT 31ST DECEMBER, 1998

		1998		1997	
	Notes	£m	£m	£m	£m
ASSETS					
Investments	14				
Land and buildings		1,094.2		1,009.1	
Investments in Group undertakings and participating interests		275.6		361.0	
Other financial investments		11,580.9		9,414.5	
			12,950.7		10,784.6
Assets held to cover linked liabilities	16		1,052.4		922.5
Reinsurers' share of technical provisions					
Long-term business provision		1,442.0		1,205.7	
Claims outstanding		—		—	
			1,442.0		1,205.7
Debtors					
Debtors arising out of direct insurance operations	17	14.7		13.2	
Other debtors	17	98.4		147.1	
			113.1		160.3
Other assets					
Tangible assets	18	9.1		9.3	
Cash at bank and in hand		22.6		10.7	
			31.7		20.0
Prepayments and accrued income					
Accrued interest and rent		14.5		11.4	
Deferred acquisition costs		181.2		147.8	
Other prepayments and accrued income	19	525.3		544.7	
			721.0		703.9
TOTAL ASSETS			16,310.9		13,797.0
LIABILITIES					
Capital and reserves					
Called up share capital	20,21	70.0		70.0	
Profit and loss account	21	12.8		23.2	
General reserves	21	611.7		611.7	
Shareholder's funds attributable to equity interests			694.5		704.9
Fund for future appropriations	22		2,922.8		2,574.9
Technical provisions					
Long-term business provision	23	11,437.8		9,331.3	
Claims outstanding		16.6		20.1	
			11,454.4		9,351.4
Technical provisions for linked liabilities	24		1,052.4		922.5
Provisions for other risks and charges	25		42.9		34.7
Creditors					
Creditors arising out of direct insurance operations	26	25.7		27.7	
Other creditors including taxation and social security	27	100.1		159.8	
			125.8		187.5
Accruals and deferred income			18.1		21.1
TOTAL LIABILITIES			16,310.9		13,797.0

The Notes on pages 32 to 46 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Accounts.

Basis of preparation

The Accounts have been prepared in accordance with Sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985. The Accounts have also been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention, modified to include the revaluation of investments, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers. The Group has adopted the modified statutory solvency basis for determining technical provisions.

Foreign currencies

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Revenue transactions and those relating to the acquisition and realisation of investments are converted at rates of exchange ruling at the time of the respective transactions.

Premiums

Premium income is accounted for on a cash basis in respect of single premium business and pensions business not subject to contractual regular premiums. For all other classes of business, premium income is accounted for in the year in which it is due for payment. Outward reinsurance premiums are accounted for when the gross premium is recognised.

Investment income

All income from listed stocks and shares is included in the Accounts when the security becomes ex-dividend and is accounted for gross of the related tax credits. Other investment income, including rents, is accrued up to the balance sheet date. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

In accordance with the ABI Statement of Recommended Practice, the investment return arising during the accounting period in relation to investments held within the Shareholders' Fund has been included in the long term business technical account. In 1997, this income with the associated tax charge was included in the Non Technical Account. The comparative numbers have been restated to reflect the amended treatment but there is no impact on profit before or after tax.

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date.

Claims and surrenders

All claims and surrenders notified for the period are included in the Accounts. Reinsurance recoveries are recognised in the period in which the claim is reported.

Commission

Commission payable is accounted for on the same basis as the corresponding premiums, except for commission payable under indemnity terms which is charged when paid.

Taxation

The charge or credit for taxation is based on the result for the year and is determined by reference to the rules applicable to the taxation of life assurance companies. Any balance on the Technical Account – Long-Term Business carried forward into the Non Technical Account is grossed up at the effective rate of corporation tax applicable for the year.

Deferred taxation is calculated on a discounted basis and is provided at current rates of tax only in respect of liabilities which can reasonably be expected to arise in the foreseeable future.

Pension costs

Contributions to the Company's defined benefit pension scheme are determined using the attained age method. The scheme is valued every three years by a qualified actuary who is an employee of the Company. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of scheme members.

Investments

Investments, which include financial futures and options contracts entered into as part of the Group's overall risk management strategy, are shown in the balance sheet at market value or their equivalents as follows:

- (i) Properties are valued on the basis of open market value, account being taken of the cost of disposal. In all cases valuations are carried out by persons who are members of the Royal Institution of Chartered Surveyors.
- (ii) Listed investments other than units in unit trusts are valued at last traded price or middle market price adjusted to include accrued interest. Units in unit trusts are valued at minimum bid price.
- (iii) All other investments are valued by the Directors at estimated open market values. In relation to Group companies held by the long-term fund, the difference between the current value and the net assets consolidated has been included in the valuation of Group undertakings.

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run as these properties are held for investment. In respect of owner-occupied property, the Directors consider that residual values are such that their depreciation is insignificant and is thus not provided. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted principle set out in SSAP 19. The Directors consider it is necessary to adopt SSAP 19 in order for the Accounts to give a true and fair view.

Deferred acquisition costs

For regular premium contracts where a series of future premiums is expected to be received, and single premium contracts where a series of future charges in respect of acquisition costs is expected to be received, only a proportion of the acquisition costs incurred in the year of sale are covered by the premium loadings received in that year. The balance, to the extent that it is recoverable out of future revenue margins, is deferred. Such deferred costs are disclosed as an asset in the balance sheet and amortised in accordance with a prudent estimate of the expected pattern of receipt of future revenue margins over the period during which the relevant contracts are expected to remain in force. For other single premium contracts, acquisition costs are covered by the premium loadings in the year of sale. There is, therefore, no deferral of costs on these contracts.

Tangible assets

The cost of tangible fixed assets is written off over their estimated useful lives in equal annual instalments. Provision is made for the diminution in value of any fixed asset where the reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life. Computers and motor vehicles are depreciated over periods of up to five years. No charge is made in respect of properties owned and occupied by the Company.

Acquisitions

Acquisitions are accounted for in accordance with Financial Reporting Standards 6 and 7 ("Acquisitions and Mergers" and "Fair Values in Acquisition Accounting"). Any excess contribution arising as the difference between the fair value of the net identifiable assets acquired and the fair value of the contribution in respect of acquisitions before 1st January, 1998, when FRS 10 "Goodwill and Intangible Assets" was adopted, was written off immediately to reserves.

Technical provisions

- (i) The Company's long-term business provision is determined by the Appointed Actuary following his annual valuation of the long term liabilities. The valuation is carried out in accordance with the requirements of the Insurance Companies Act 1982 using the net premium method adjusted as follows:
 - (a) any resilience, close-down and certain other reserves required under the Insurance Companies Regulations are deducted from the mathematical reserves; and
 - (b) the Zillmer adjustment to make allowance in the valuation for margins in future premiums which will be used as a means of recovering the acquisition expenses is included.

Long term business provisions include the non unit liabilities in respect of unit linked business.

- (ii) The technical provisions for linked liabilities are determined by reference to the benefits under the contracts.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

2. Premiums

The value of premiums written was as follows:

	United Kingdom		Other European Community			Other		Total
	1998	1997	1998	1997	1998	1997	1998	1997
	£m	£m	£m	£m	£m	£m	£m	£m
Life Insurance Business								
Participating contracts								
single premium	398.8	328.1	—	—	—	—	398.8	328.1
regular premium	179.0	228.7	—	—	7.6	7.3	186.6	236.0
Non participating contracts								
single premium	439.4	212.1	245.8	117.7	93.9	16.0	779.1	345.8
regular premium	28.5	6.4	37.9	28.9	6.0	11.1	72.4	46.4
Linked contracts								
single premium	96.7	84.2	—	—	—	—	96.7	84.2
regular premium	20.1	20.1	—	—	—	—	20.1	20.1
	1,162.5	879.6	283.7	146.6	107.5	34.4	1,553.7	1,060.6
Group Pensions Business								
Participating contracts								
single premium	7.8	10.3	—	—	—	—	7.8	10.3
regular premium	40.4	43.2	—	—	—	—	40.4	43.2
Non participating contracts								
single premium	3.4	5.1	—	—	—	—	3.4	5.1
regular premium	51.6	49.0	—	—	7.8	6.2	59.4	55.2
Linked contracts								
single premium	21.3	25.7	—	—	—	—	21.3	25.7
regular premium	36.5	25.8	—	—	—	—	36.5	25.8
	161.0	159.1	—	—	7.8	6.2	168.8	165.3
Individual Pensions Business								
Participating contracts								
single premium	118.0	116.9	—	—	—	0.4	118.0	117.3
regular premium	117.1	77.4	—	—	6.4	5.2	123.5	82.6
Linked contracts								
single premium	198.8	97.2	—	—	—	—	198.8	97.2
regular premium	44.8	16.4	—	—	—	—	44.8	16.4
	478.7	307.9	—	—	6.4	5.6	485.1	313.5
Less: Reinsurance premiums . .	(217.6)	(157.3)	—	—	—	(0.1)	(217.6)	(157.4)
Total Net Premiums Written.	1,584.6	1,189.3	283.7	146.6	121.7	46.1	1,990.0	1,382.0

3. New Business Premiums

Single premiums and the annualised values of new regular premiums included in Note 2 are:

	Single		Annualised	
	1998 £m	1997 £m	1998 £m	1997 £m
United Kingdom				
<i>Life Insurance Business</i>				
Participating contracts	398.8	328.1	2.4	1.2
Non participating contracts	439.4	212.1	3.0	3.5
Linked contracts	96.7	84.2	3.3	1.5
	934.9	624.4	8.7	6.2
<i>Group Pensions Business</i>				
Participating contracts	7.8	10.3	10.0	8.3
Non participating contracts	3.4	5.1	1.3	0.9
Linked contracts	21.3	25.7	12.6	9.3
	32.5	41.1	23.9	18.5
<i>Individual Pensions Business</i>				
Participating contracts	118.0	116.9	1.8	2.1
Linked contracts	198.8	97.2	12.4	15.6
	316.8	214.1	14.2	17.7
Less: Reinsurance premiums	(222.1)	(130.2)	(14.9)	(14.2)
Total United Kingdom	1,062.1	749.4	31.9	28.2
Other European Community				
<i>Life Insurance Business</i>				
Non participating contracts	245.8	117.7	5.6	4.0
	245.8	117.7	5.6	4.0
Less: Reinsurance premiums	—	—	—	—
Total Other European Community	245.8	117.7	5.6	4.0
Other				
<i>Life Insurance Business</i>				
Non participating contracts	93.9	16.0	1.1	1.6
<i>Individual Pensions Business</i>				
Participating contracts	—	0.4	—	0.1
	93.9	16.4	1.1	1.7
Less: Reinsurance premiums	—	—	—	—
Total Other	93.9	16.4	1.1	1.7
Total Net New Business Premiums	1,401.8	883.5	38.6	33.9

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

- (a) New recurrent single premium contracts are classified as regular where they are deemed likely to renew at or above the amount of initial premium. Incremental increases on existing policies are classified as new business premiums.
- (b) DSS rebates are classified as new single premiums.
- (c) Funds at retirement under individual pension contracts left with the Company and transfers from the Group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.
- (d) Increments under existing Group pension schemes are classified as new business premiums.

Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.

4. Investment income

	Technical account long-term business	
	1998	1997
	£m	£m
Income from participating interests	6.8	0.6
Income from land and buildings	77.9	51.3
Income from other investments		
– listed	254.6	318.2
– other	209.4	131.2
	548.7	501.3
Net gains on the realisation of investments	281.7	321.1
	830.4	822.4

5. Other technical income

Other technical income consists of management fees. These fees are comprised mainly of fees received for the management of insurance funds.

6. Claims incurred

	1998	1997
	£m	£m
Deaths	38.1	35.0
Maturities	387.1	297.9
Life and annuity surrenders	83.4	55.5
Unit linked	478.0	434.8
Pension contracts	43.1	25.9
Managed funds	—	—
Annuity payments	109.1	121.6
	1,138.8	970.7

7. Staff superannuation fund

The Company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. For the purposes of SSAP 24, the most recent actuarial valuation was conducted as at 1st January, 1997 and used the following main assumptions:

Investment return	9.0 per cent. per annum
Salary increases	7.0 per cent. per annum
Future pensions increases	5.0 per cent. per annum

The valuation showed that the market value of the scheme's assets at that date amounted to £230.7m and the actuarial value of those assets represented 166 per cent. overall of the benefits that had accrued to members, after allowing for assumed future increases in earnings and pensions.

Members' contributions to the fund commenced on 1st January, 1998 at the rate of 2 per cent. of pensionable earnings.

Employer's contributions to the fund have currently been suspended. This decision will be reviewed when the next valuation as at 1st January, 2000 is available. The surplus is being spread over the expected remaining service lives of current employees by a straight line apportionment.

8. Net operating expenses

	1998 £m	1997 £m
Acquisition costs	91.3	99.7
Change in deferred acquisition costs	(33.4)	3.3
Administrative expenses	54.8	30.3
	<u>112.7</u>	<u>133.3</u>

Net administrative expenses above include the following amounts:

	1998 £m	1997 £m
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services	0.2	0.2
Remuneration for non-audit services	0.3	0.1
	<u>0.5</u>	<u>0.3</u>

9. Investment expenses and charges

	1998 £m	1997 £m
Investment management expenses	14.9	12.9
Interest on Pension Contract business	37.2	35.4
Other Interest	4.4	4.2
	<u>56.5</u>	<u>52.5</u>

10. Directors' emoluments

Directors' emoluments for the year amounted to £903,100 (1997 £670,200). The total emoluments of the highest paid Director were £262,600 (1997 £225,700). He is a member of the Clerical Medical Staff Superannuation Fund (a defined benefit scheme). The accrued pension which would be payable on his attaining normal retirement age if he had left the Company's service at the end of the financial year would be £89,100 (1997 £78,500), and his accrued lump sum would be £244,093 (1997 £217,700). Retirement benefits under the Clerical Medical Staff Superannuation Fund were accruing to five Directors as at 31st December, 1998 (six Directors as at 31st December, 1997).

11. Related party transactions

The Company recharges the Clerical Medical Staff Superannuation Fund with the costs of administration borne by the Company. The total amount recharged in the year was £541,292 (1997 £496,218).

At 31st December, 1998, certain related parties (defined as Directors/Principal Officers and their spouses) held insurance policies and other investments managed by the Group and sold on terms available to all employees.

12. Employee information

The average number of employees, including Executive Directors, during the year was as follows:

	1998	1997
Operations	850	753
Marketing and Sales	428	413
Other	762	676
	<u>2,040</u>	<u>1,842</u>

Employee costs for the above were as follows:

	1998	1997
	£m	£m
Wages and salaries	51.9	44.4
Social security costs	4.3	5.1
Other costs	0.3	—
	<u>56.5</u>	<u>49.5</u>

13. Taxation

The charge/(credit) for taxation comprises:

	Technical account Long-term business		Non technical account	
	1998 £m	1997 £m	1998 £m	1997 £m
UK Corporation tax.	64.0	59.6	0.8	(6.6)
Less: Double taxation relief.	(2.0)	(0.9)	—	—
	62.0	58.7	0.8	(6.6)
Tax on franked investment income	17.3	24.4	—	—
Overseas taxation	3.3	2.5	—	—
Deferred taxation.	8.2	11.2	—	—
	90.8	96.8	0.8	(6.6)
Less: Prior year adjustment	(10.3)	(1.7)	—	—
	80.5	95.1	0.8	(6.6)

The charge for deferred taxation is in respect of:

	1998 £m	1997 £m
Deemed disposal of unit trusts and offshore funds	8.2	11.2

14. Investments

(a) Land and buildings:

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
Valuation				
At 31st December, 1998	788.6	232.3	73.3	1,094.2
At 31st December, 1997	725.1	219.2	64.8	1,009.1
Cost				
At 31st December, 1998	703.2	208.7	65.4	977.3
At 31st December, 1997	683.5	210.8	63.7	958.0

The properties valued by external valuers totalled £1,080.0m (1997 £339.0m) representing 99 per cent. (1997 34 per cent.) of the above properties. Included in the above figures are land and buildings owned and occupied by the Company at 31st December, 1998 of £39.7m (1997 £34.4m). Notional rent of £2.7m (1998 £2.2m), based on market rentals, was charged to net operating expenses and included in investment income.

(b) *Investments in Group undertakings and participating interests:*

	Group Undertakings			Participating Interests			
	Ordinary Shares £m	Loans £m	Total £m	Ordinary Shares £m	Other Investments £m	Total £m	Total £m
Valuation							
At 31st December, 1998	129.5	19.7	149.2	120.3	6.1	126.4	275.6
At 31st December, 1997	223.0	5.0	228.0	127.9	5.1	133.0	361.0
Cost							
At 31st December, 1998	118.4	19.7	138.1	69.6	5.2	74.8	212.9
At 31st December, 1997	193.7	5.0	198.7	106.0	5.0	111.0	309.7

(c) *Other financial investments:*

	Valuation 1998 £m	Cost 1998 £m	Valuation 1997 £m	Cost 1997 £m
Shares and other variable yield securities and units in unit trusts	6,344.5	4,392.0	5,203.6	4,417.8
Debt securities and other fixed income securities	3,044.1	2,629.2	2,281.6	2,210.8
Loans secured by mortgages	1.2	1.2	1.5	1.5
Other loans	21.6	22.5	23.1	23.6
Deposits with credit institutions	2,169.5	2,134.2	1,904.7	1,905.6
	11,580.9	9,179.1	9,414.5	8,559.3

Included in the valuations shown in (b) and (c) above are the following listed investments:

	Group Undertakings and Participating Interests 1998 £m	Other Investments 1998 £m	Total 1998 £m	Total 1997 £m
Shares and other variable yield securities and units in unit trusts	101.0	6,283.6	6,384.6	5,182.8
Debt securities and other fixed income securities	—	3,036.8	3,036.8	2,209.9

At the balance sheet date certain of the Company's investments were on loan to market makers under a stock lending scheme authorised by the Bank of England.

15. Group undertakings and participating interests

Particulars of the Company's principal Group undertakings and participating interests are shown below. Other holdings in Group undertakings and participating interests are not considered to be material.

	Country of Incorporation or Registration	Nature of Business	% Held
Group Undertakings			
Clerical Medical Managed Funds Limited	England	Life Insurance	* 100.0
Clerical Medical Unit Trust Managers Limited	England	Unit Trust Management	* 100.0
CMI Financial Management Services Limited	Isle of Man	Financial Services	* 100.0
CMI Financial Services Limited	England	Financial Services	100.0
CMI Insurance Company Limited	Isle of Man	Life Insurance	100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	87.9
Participating Interests			
Brixton Estate plc	England	Investment Company	22.0
Lands Improvement Group plc	England	Investment Company	48.1
Pharos SA	Luxembourg	Investment Company	27.1

* These subsidiary undertakings are direct subsidiaries of the Company.

16. Assets held to cover linked liabilities

	1998 £m	1997 £m
At valuation	1,052.4	922.5
At cost	863.1	859.1

17. Debtors arising out of direct insurance operations

	1998 £m	1997 £m
Amounts receivable from policyholders	6.8	10.2
Amounts receivable from intermediaries	—	—
Reinsurance debtors.	7.9	3.0
	14.7	13.2

Other debtors comprise:

	1998 £m	1997 £m
Tax recoverable.	4.1	3.7
Outstanding interest, dividends and rents	35.5	20.8
Amount receivable from Group undertakings	3.7	17.8
Other	55.1	104.8
	98.4	147.1

18. Tangible assets

The net book value of tangible assets is comprised as follows:

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Total £m
Cost				
At 1st January, 1998	8.1	59.9	9.8	77.8
Additions	0.2	3.9	1.5	5.6
Disposals	(1.7)	—	—	(1.7)
At 31st December, 1998	6.6	63.8	11.3	81.7
Depreciation				
At 1st January, 1998	5.7	54.9	7.9	68.5
Charge for year	0.8	3.7	0.7	5.2
Disposals	(1.1)	—	—	(1.1)
At 31st December, 1998	5.4	58.6	8.6	72.6
Net book value at 31st December, 1998.	1.2	5.2	2.7	9.1
Net book value at 31st December, 1997.	2.4	5.0	1.9	9.3

At 31st December, 1998 total assets held under finance leases were £0.1m (1997 £0.4m).

The depreciation charge in respect of assets held under finance leases amounted to £0.1m (1997 £0.3m).

19. Other prepayments and accrued income

Other prepayments and accrued income include £511.7m (1997 £539.3m), being the value of in-force policies transferred from Clerical, Medical and General Life Assurance Society, less accumulated amortisation.

20. Called up share capital

	1998 £m	1997 £m
Authorised: 150,000,000 ordinary shares of £1 each	150.0	150.0
Allotted, called up and fully paid: 70,000,000 ordinary shares of £1 each	70.0	70.0

21. Reconciliation of movements on shareholders' funds

	Share capital £m	Profit and loss account £m	General reserves £m	Total £m
At 1st January, 1997	70.0	1.0	611.7	682.7
Profit for the financial period	—	22.2	—	22.2
At 31st December, 1997	70.0	23.2	611.7	704.9
Loss for the financial period	—	(10.4)	—	(10.4)
At 31st December, 1998	70.0	12.8	611.7	694.5

Distributable reserves at 31st December, 1998 were £624.5m (1997 £634.9m).

22. Fund for future appropriations

The fund for future appropriations comprises all funds which have yet to be allocated to policyholders or shareholders.

	1998 £m	1997 £m
At 1st January, 1998	2,574.9	2,061.6
Transfer from the Technical Account — Long Term Business	347.9	493.3
Transfer from Clerical, Medical and General Life Assurance Society	—	20.0
At 31st December, 1998	2,922.8	2,574.9

23. Long term business provision

The principal assumptions used in calculating the long term business provisions were as follows:

Class of business	Mortality	Interest (%)
Without Profit Life	A67/70 (x-3) Ult*	3.35
With Profit Life — regular	A67/70 (x-3) Ult*	2.00
— single	A67/70 (x-3) Ult*	2.00
Without Profit Pensions	A67/70 (x-3) Ult*	4.25
With Profit Pensions Regular	A67/70 (x-3) Ult*	2.25
With Profit Pensions Single	A67/70 (x-3) Ult*	2.00
Personal Pension Contract Regular	A67/70 (x-3) Ult*	2.25
Personal Pension Contract Single	A67/70 (x-3) Ult*	2.00
Life Annuities in Payment	a (90) Ult (x-8)	3.75
Pensions Annuities in Payment	90% PMA80/PFA80 (C=2020)	3.75

*An allowance has been made for additional mortality due to AIDS.

Explicit provision is made for vested bonuses. No such provision is made for future reversionary or terminal bonuses.

A provision of £35.0m (1997 £30.0m) to cover direct and indirect costs arising from the pensions review is included in the Long Term Business Provision.

24. Technical provisions for linked liabilities

The technical provisions in respect of linked business are equal to the value of the assets to which the contracts are linked.

25. Provisions for Other Risks and Charges

The balance of £42.9m (1997 £34.7m) is comprised of deferred tax on the deemed disposal of unit trusts and offshore funds.

The potential liability for deferred taxation not provided is as follows:

	1998	1997
	£m	£m
Unrealised appreciation of invested assets	123.8	106.4
Other items	-	-
Excess of interest receivable over interest payable	0.7	0.5
Difference between tax allowances and depreciation	3.8	2.1
Deferred acquisition costs	3.0	2.0
Miscellaneous	0.5	0.5
	<u>131.8</u>	<u>111.5</u>

26. Creditors Arising out of Direct Insurance Operations

	1998	1997
	£m	£m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	24.3	25.6
Reinsurance creditors	1.4	2.1
	<u>25.7</u>	<u>27.7</u>

27. Other Creditors Including Taxation and Social Security

	1998	1997
	£m	£m
Inter fund loans	23.0	51.3
Outstanding purchases of investments	6.6	46.6
Amounts payable to Group undertakings	23.5	5.6
Accounts payable	—	3.1
Taxation payable	37.3	46.0
Other	9.7	7.2
	<u>100.1</u>	<u>159.8</u>

28. Capital Commitments

The estimated capital expenditure on investments and equipment for which no provision has been made in the accounts is as follows:

	1998	1997
	£m	£m
Amount contracted	102.0	25.1
Liability on partly paid stocks and shares	7.3	4.9

29. Contingent Liabilities

	1998	1997
	£m	£m
Uncalled capital on certain investments	26.7	29.1
Underwriting liabilities on certain investments	—	0.5

30. Ultimate Parent Undertaking

The Company is a wholly owned subsidiary undertaking of Clerical Medical Investment Group (Holdings) Limited. The ultimate parent company is Halifax plc, which is registered in England and Wales. Copies of the accounts of Halifax plc may be obtained from Trinity Road, Halifax, West Yorkshire, HX 1 2RG.

The smallest group in which the results of the Company are consolidated is Clerical Medical Investment Group (Holdings) Limited. The largest group in which the results of the Company are consolidated is Halifax plc.

AUDITORS' REPORT ON THE GUARANTOR



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB

The Directors
Clerical Medical Investment Group Limited
15 St James's Square
LONDON
SW1Y 4LQ

The Directors
Clerical Medical Finance plc
15 St James's Square
LONDON
SW1Y 4LQ

3 November 1999

Dear Sirs

Clerical Medical Investment Group Limited

We have examined the financial information set out on pages 29 to 46 of the Prospectus dated 3 November, 1999 of Clerical Medical Finance plc.

We conducted our work in accordance with Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board.

In our opinion the financial information is consistent with the annual accounts of Clerical Medical Investment Group Limited for the year ended 31 December 1998, drawn up under Part VII of the Companies Act 1985, which we audited in accordance with Auditing Standards and on which we reported without qualification.

Yours faithfully

KPMG Audit Plc

UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on the Issuer's and the Guarantor's understanding of current United Kingdom law and practice. The comments relate only to the position of persons who are the absolute beneficial owners of their Bonds and the interest thereon and may not apply to certain classes of persons such as dealers. These comments do not necessarily apply where the interest is for tax purposes deemed to be the income of any other person. Any person who is subject to tax in a jurisdiction outside the United Kingdom or who is unsure about their tax position should seek professional advice.

Interest

1. So long as the Bonds are in bearer form and continue to be listed on a recognised stock exchange within the meaning of Section 841 of the Income and Corporate Taxes Act 1988 (the "Taxes Act") (the London Stock Exchange is currently so recognised), payments of interest may be made without withholding or deduction for or on account of United Kingdom tax where:

- (a) the payment is made by or through a person outside the United Kingdom; or
- (b) the payment is made by or through a person in the United Kingdom but:
 - (i) the beneficial owner of the Bonds and the interest is not resident in the United Kingdom; or
 - (ii) the Bonds are held in a "recognised clearing system" within the meaning of Section 841A of the Taxes Act (Euroclear and Cedelbank have each been designated as a recognised clearing system for this purpose),

and a declaration to that effect in the form required by law has been given to the person by or through whom the payment is made (or the Inland Revenue has issued a notice to that effect to the person by whom or through whom the payment is made). The exception will then be available unless the Inland Revenue issues a direction that it considers that neither of the conditions in (i) and (ii) is satisfied.

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

2. Where a person in the United Kingdom acts as a collecting agent, i.e. either:

- (a) acts as custodian of the Bonds and receives interest on the Bonds or directs that interest on the Bonds be paid to another person or consents to such payment; or
- (b) collects or secures payment of or receives interest on the Bonds for a Bondholder except by means only of clearing a cheque or arranging for the clearing of a cheque,

the collecting agent will be required to withhold on account of United Kingdom income tax at the lower rate (currently 20 per cent.) unless *inter alia*:

- (i) the relevant Bonds are held in a "recognised clearing system" for which the collecting agent is acting as depositary in respect of the Bonds; or
- (ii) the relevant Bonds are held in a "recognised clearing system" and the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system; or
- (iii) the person who is beneficially entitled to the interest and beneficially owns the Bonds is either not resident in the United Kingdom or is specified by regulations; or

- (iv) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the trust is resident in the United Kingdom); or
- (v) the person beneficially entitled to the interest is eligible for certain relief from tax in respect of the interest or one of certain other specified circumstances applies; or
- (vi) the interest falls to be treated as the income of, or of the person acting in the name of, an international organisation.

For exceptions (ii) to (vi) to be available, a declaration in the specified form has to be provided (or notice issued by the Inland Revenue) in all cases. The collecting agent is required to account for, and will be entitled to withhold, United Kingdom income tax, if the Inland Revenue issues a direction to that effect, having reason to believe that none of the above exceptions applies or that the depositary or collecting agent has failed to comply with certain requirements.

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

4. Where interest has been paid under deduction of United Kingdom income tax Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double tax treaty.

5. Bondholders should note that the provisions relating to additional amounts set out in Condition 8 of the Bonds above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest directly to United Kingdom tax on that interest. However, exemption from or reduction of such United Kingdom tax liability might be available under an appropriate double taxation treaty.

Taxation of Returns

6. The Bonds should be qualifying corporate bonds (although this is not clear). Accordingly, on a disposal of a Bond by a Bondholder (who is an individual or trustee and is resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bond is attributable) neither chargeable gains nor allowable losses will generally arise for the purposes of taxation of chargeable gains. The Bonds will be "variable rate securities" for the purposes of the accrued income scheme legislation so that when such a holder transfers Bonds he or she may be subject to income tax in respect of interest on the Bonds which has accrued since the preceding interest payment date in such amount as the Inland Revenue consider to be just and reasonable. A transferee of the Bonds who is such a holder will not be entitled to any corresponding allowance under the accrued income scheme. Redemption of Bonds may be treated as a transfer for the purposes of the accrued income scheme.

7. Holders of Bonds who are companies within the charge to United Kingdom corporation tax will be subject to United Kingdom tax on any returns from the Bonds under the loan relationship legislation, broadly, in accordance with their authorised accounting treatment.

8. Non-United Kingdom residents will have no United Kingdom tax liability on a disposal of Bonds unless the Bonds are attributable to a United Kingdom branch or agency through which the non-resident carries on a trade in the United Kingdom.

Stamp Duty

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue, transfer by delivery or redemption of a Bond.

Proposed EU Directive on the Taxation of Savings Income

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The "withholding tax system" would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a Member State to supply, to the other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1st January, 2001.

Bondholders who are individuals should note that, if this proposal is adopted in its current form, the provisions relating to additional amounts, referred to in Condition 8 of the Terms and Conditions of the Bonds above would not apply in respect of any withholding tax imposed as a result thereof.

SUBSCRIPTION AND SALE

Barclays Bank PLC and Lehman Brothers International (Europe) (the "Managers") have, under a subscription agreement dated 3 November, 1999 (the "Subscription Agreement"), agreed with the Issuer and the Guarantor to subscribe for the Bonds at the issue price of 98.856 per cent. of the principal amount thereof. The Issuer will pay to the Managers a combined management and underwriting commission of 0.425 per cent. of the principal amount of the Bonds, a selling commission of 0.20 per cent. of the principal amount of the Bonds and an amount in lieu of reimbursement of certain expenses of the Managers. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment for the Bonds to the Issuer.

United States

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

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

Each Manager has agreed that it will not offer, sell or deliver Bonds (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Bonds during the distribution compliance period, a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 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 Financial Services Act 1986, (ii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by the listing rules under Part IV of the Financial Services Act 1986, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on and (iii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Except in connection with the listing of the Bonds on the London Stock Exchange, no action has been or will be taken by the Issuer, the Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

GENERAL INFORMATION

1. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction. It is anticipated that such listing will be granted on or about 5 November, 1999, subject only to the issue of the Temporary Global Bond. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

2. Under current regulatory requirements, in order that the net proceeds of the Bonds may be treated by The Financial Services Authority as capital, no repayment of the Bonds and no purchase of the Bonds by the Issuer or the Guarantor may be made without the consent of The Financial Services Authority.

3. The Bonds have been accepted for clearance in Euroclear and Cedelbank. The Common Code reference number is 010396174 and the International Security Identification Number for the Bonds is XS0103961743.

4. The Issuer and the Guarantor are incorporated in England and Wales.

5. Save as disclosed in this document, there has been no significant change in the financial or trading position of the Issuer since its incorporation nor of the Guarantor or of the Group since 31st December, 1998. There has been no material adverse change in the financial position or prospects of the Issuer since its incorporation nor of the Guarantor or the Group since 31st December, 1998.

6. Neither the Issuer nor the Guarantor is, or has been, involved in any legal or arbitration proceedings which may have, or have had during the past 12 months, a significant effect on the Group's financial position, nor is the Issuer or the Guarantor aware that such proceedings are pending or threatened.

7. KPMG Audit Plc have given and have not withdrawn their written consent to the inclusion in this document of their reports dated 3 November, 1999 in the form and context in which they appear and have authorised the contents of those reports for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

8. 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 relating to each financial year to which the financial information relates 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 Guarantor in respect of the three financial years ended 31st December, 1998. 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.

9. Copies of the following documents may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of the Issuer and of the Guarantor;
- (ii) the audited accounts of the Guarantor for the two years ended 31st December, 1998;
- (iii) the Subscription Agreement;
- (iv) drafts (subject to modification) of the Trust Deed (which includes the Guarantee and the forms of the Temporary Global Bond, the Permanent Global Bond and the definitive Bonds) and of the Agency Agreement; and
- (v) the reports of KPMG Audit Plc in relation to the Issuer and the Guarantor set out on pages 17 and 47 respectively of this Prospectus.

REGISTERED OFFICES

The Issuer

Clerical Medical Finance plc
15 St James's Square
London SW1Y 4LQ

The Guarantor

Clerical Medical Investment Group Limited
15 St James's Square
London SW1Y 4LQ

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
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