

The **Abbey National**
Group

Abbey National plc

(incorporated in England with limited liability registered number 2294747)

£175,000,000

6.984 per cent. Fixed/Floating Rate Tier One Preferred Income Capital Securities
Issue Price: 100 per cent.

The £175,000,000 6.984 per cent. Fixed/Floating Rate Tier One Preferred Income Capital Securities (the "TOPICS") of Abbey National plc ("Abbey National" or the "Issuer") will bear interest from (and including) 9 August 2002 to (but excluding) 9 February 2018 at a rate of 6.984 per cent. per annum, payable semi-annually in arrear on 9 February and 9 August in each year. From (and including) 9 February 2018, the TOPICS will bear interest, at a rate reset semi-annually of 1.86 per cent. per annum above the London interbank offered rate for six-month sterling deposits, payable on the Coupon Payment Dates (as defined in the Terms and Conditions) falling in February and August in each year, all as more particularly described in "Terms and Conditions of the TOPICS — 5. Coupon Payments". Coupon Payments (as defined in the Terms and Conditions) may be deferred as described in "Terms and Conditions of the TOPICS — 4. Coupon Deferral", but then the Issuer may not, *inter alia*, declare or pay dividends on any Junior Share Capital (as defined in the Terms and Conditions) until the Issuer next makes a Coupon Payment.

The TOPICS will be redeemable (at the option of the Issuer) in whole but not in part on 9 February 2018 or any Coupon Payment Date thereafter. In addition, the TOPICS may (at the option of the Issuer) be redeemed in the event that the Issuer is required to pay additional amounts as provided in "Terms and Conditions of the TOPICS — 11. Taxation". Upon the occurrence of certain tax or regulatory events, the TOPICS may be exchanged or their terms varied so that they become Upper Tier 2 Securities (as defined in the Terms and Conditions), provided that if such tax or regulatory events do or would persist after such exchange or variation or certain other provisions apply, the TOPICS may be redeemed, as more particularly described in "Terms and Conditions of the TOPICS — 7. Exchange for Upper Tier 2 Securities, Variation or Redemption".

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

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

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

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

The TOPICS are expected to be assigned a rating of A by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and a rating of 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. See "The Abbey National Group — Ratings".

Joint Bookrunners

LEHMAN BROTHERS

(Structuring Adviser)

UBS WARBURG

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

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

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

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

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

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

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

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DOCUMENTS INCORPORATED BY REFERENCE

The Annual Report and Accounts of the Issuer for the years ended 31 December 2001 and 2000 (prepared on a consolidated and non-consolidated basis) and the interim financial statements for the six months ended 30 June 2002 (prepared on a consolidated basis) are incorporated into this Offering Circular by reference. Copies may be obtained free of charge at the specified office of each of the Paying Agents as set out in “General Information” below.

FORWARD LOOKING STATEMENTS

This document contains, or incorporates by reference, certain “forward-looking statements” with respect to certain of Abbey National’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Abbey National’s control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Abbey National and its affiliates operate. As a result, Abbey National’s actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Abbey National’s forward-looking statements.

SUMMARY

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

Issuer	Abbey National plc
Trustee	The Bank of New York
Issue size	£175,000,000
Redemption	The TOPICS will be perpetual securities and will have no maturity date. However, the TOPICS will be redeemable in whole but not in part at the option of the Issuer, subject to the prior consent of the FSA and to the Auditors having reported to the Trustee within the previous six months that the Solvency Condition has been met, at their principal amount together with any Outstanding Payments on 9 February 2018 or any Coupon Payment Date thereafter.
Interest	The TOPICS will bear interest at a rate of 6.984 per cent. per annum from (and including) 9 August 2002 to (but excluding) 9 February 2018 and thereafter at a rate reset semi-annually of 1.86 per cent. per annum above the London interbank offered rate for six-month sterling deposits.
Coupon Payment Dates	Except as described below, Coupon Payments will be payable on 9 February and 9 August in each year, commencing on 9 February 2003, in respect of the period to and including 9 February 2018, and thereafter, subject to adjustment for non-business days, on 9 February and 9 August in each year.
Subordination	The rights and claims of the TOPICS Holders will be subordinated to the claims of Senior Creditors. No payment of principal or interest in respect of the TOPICS may be made unless the Issuer is able to make such payment and still be solvent immediately thereafter. Upon any winding-up of the Issuer, the holder of each of the TOPICS will, for the purpose of calculating the amounts payable in respect of each of the TOPICS, rank <i>pari passu</i> with the holders of the RCIs and with the holders of the most senior class or classes of preference shares (if any) of the Issuer then in issue and in priority to all other Issuer shareholders, but will rank junior to the claims of the Senior Creditors and any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up of the Issuer is determined. The TOPICS Holder's claim in the winding-up shall be limited to the principal amount of the relevant TOPICS (and no amounts will be payable in respect of any Coupon).
Deferral of Coupon Payments	If the Issuer, at its sole discretion, determines, on the twentieth business day prior to the date on which any Coupon Payment would, in the absence of deferral in accordance with Condition 4, be due and payable, that it is, or payment of the relevant Coupon Payment will result in the Issuer being, in non-compliance with applicable Capital Regulations, the Issuer may elect to defer such Coupon Payment, subject to the restrictions described below. Such Deferred Coupon Payment shall be paid in accordance with the Alternative Coupon Satisfaction Mechanism described below only on the date upon which the TOPICS are redeemed, but shall not be paid in any other circumstances. No interest will accrue on a Deferred Coupon Payment.

Restrictions following deferral of Coupon Payments

If the Issuer defers a Coupon Payment as described above then the Issuer may not and it shall procure that no member of the Abbey National Group shall (a) declare or pay a dividend (other than a final dividend declared by the Issuer or a Subsidiary before such Coupon Payment is so deferred) on any Junior Share Capital (other than shares or securities entirely held by the Issuer and/or a wholly-owned Subsidiary) or (b) redeem, purchase, reduce or otherwise acquire any Junior Share Capital (other than shares or securities held by the Issuer or a wholly-owned Subsidiary), in either case until the Issuer next makes a Coupon Payment.

Alternative Coupon Satisfaction Mechanism

Investors will always receive payments made in respect of TOPICS in cash. If the Issuer either (i) defers a Coupon Payment or (ii) does not redeem the TOPICS on the First Reset Date, then the Issuer must pay any obligation it may have to make any such Deferred Coupon Payment (in the case of (i)) or all Coupon Payments falling due after the First Reset Date (in the case of (ii)) to TOPICS Holders on the date upon which the TOPICS are redeemed (in the case of (i)) or on the relevant Coupon Payment Date (in the case of (ii)) by raising subscription proceeds through the issue of Ordinary Shares. The Issuer will agree to issue and allot, subject to Conditions 6(d), 6(e) and 8(d), Ordinary Shares to purchasers in order to raise subscription proceeds in an amount sufficient to pay the full amount of money due on the relevant payment date to TOPICS Holders. The Calculation Agent will agree to use its reasonable endeavours to procure such purchasers. Any shortfall as at the relevant payment date in the amount of subscription proceeds raised from the issue of such Ordinary Shares will be satisfied either by payment of an amount equal to such shortfall by the Issuer or, at its election, by the payment of further subscription proceeds raised through issuing additional Ordinary Shares as part of the operation of a similar share issue mechanism to that summarised above.

Insufficiency

The Issuer will be required, as more particularly described in Conditions 6(d) and 9, to use all reasonable endeavours, subject to compliance with the requirements of the Companies Act, to obtain corporate authorisation for the issue of enough of its Ordinary Shares as it reasonably considers would be required in connection with the payment of any Deferred Coupon Payment and, if the Issuer does not redeem the TOPICS on the First Reset Date, the next two Coupon Payments falling due thereafter using the Alternative Coupon Satisfaction Mechanism described above.

Market Disruption Event

If, in the opinion of the Issuer, a Market Disruption Event exists on or after the fifteenth business day preceding any date upon which the Issuer is due to satisfy a payment using the Alternative Coupon Satisfaction Mechanism, the payment to TOPICS Holders may be deferred until the Market Disruption Event no longer exists. Any such deferred payments shall bear interest at the then current rate applicable to the TOPICS if the Market Disruption Event continues for 14 days or more.

Suspension

If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the right of the Issuer to satisfy a payment using the Alternative Coupon Satisfaction Mechanism shall be suspended until the amendments (if any) referred to below are effected. Unless a Permitted Restructuring Arrangement shall be put in place, such amendments to the documentation relating to the TOPICS as

	<p>determined by an independent investment bank to be appropriate in order to preserve substantially the economic effect, for the TOPICS Holders, of a holding of the TOPICS prior to such event will be made by the Issuer and the Trustee. If the investment bank is unable to determine appropriate amendments, as notified to the Issuer and the Trustee, the TOPICS will (subject to the prior consent of the FSA) be redeemed at the Suspension Redemption Price. See “Terms and Conditions of the TOPICS — 8. Payments — (d) Suspension”.</p>
Additional amounts	<p>The Issuer will pay additional amounts to TOPICS Holders to gross up payments upon the imposition in the UK of any requirement to make a withholding or deduction for or on account of UK tax, subject to customary exceptions.</p>
Exchange, variation or redemption for taxation reasons	<p>The Issuer may, subject to the prior consent of the FSA, redeem all, but not some only, of the TOPICS at their principal amount together with any Outstanding Payments in the event that it is required to pay additional amounts in respect of any requirement to make a withholding or deduction for or on account of United Kingdom taxation as provided in Condition 11, provided that the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been met. Upon the occurrence of certain other adverse tax events and/or changes in the treatment of the TOPICS for taxation purposes, which events and/or changes affect payments of interest falling due on or prior to 9 February 2018, the Issuer may, subject to the prior consent of the FSA, exchange the TOPICS for, or vary the terms of the TOPICS so that they become, Upper Tier 2 Securities or, if that or any other such adverse tax event and/or change in tax treatment or any such requirement to pay additional amounts affects or would affect the Upper Tier 2 Securities and provided that the Auditors of the Issuer have reported to the Trustee within the previous six months that the Solvency Condition has been met, redeem all, but not some only, of the TOPICS at their principal amount together with any Outstanding Payments.</p>
Exchange, variation or redemption for regulatory reasons	<p>The TOPICS will qualify as Tier 1 Capital for the purposes of the FSA’s capital adequacy regulations. If at any time the TOPICS cease to qualify as Tier 1 Capital, the Issuer may, subject to the prior consent of the FSA, exchange the TOPICS for, or vary the terms of the TOPICS so that they become, Upper Tier 2 Securities or, if such exchanged or varied securities do or would not qualify as Upper Tier 2 Capital or certain other provisions apply and provided the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been met, redeem all, but not some only, of the TOPICS at their principal amount together with any Outstanding Payments.</p>
Remedy for non-payment	<p>The sole remedy against the Issuer available to the Trustee or any TOPICS Holder or Couponholder for recovery of amounts owing in respect of any Payment or principal in respect of the TOPICS will be the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up. However, in the winding-up of the Issuer, the claim of a TOPICS Holder will be limited to the principal amount of the relevant TOPICS (and no amount will be payable in respect of any Coupon).</p>
Form	<p>Bearer. The TOPICS will be represented initially by the Temporary Global TOPICS which will be deposited outside the United States with a common depositary for Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and Euroclear Bank</p>

	<p>S.A./N.V., as operator of the Euroclear System (“Euroclear”) on or about 9 August 2002. The Temporary Global TOPICS will be exchangeable for interests in a Permanent Global TOPICS on or after a date which is expected to be 18 September 2002 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global TOPICS. Save in limited circumstances, TOPICS in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global TOPICS.</p>
Listing	Luxembourg.
Governing law	English.
Rating	<p>The TOPICS are expected to be assigned a rating of A by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. and a rating of 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. See “The Abbey National Group — Ratings”.</p>
Investment Considerations	<p>Prospective investors should carefully consider the information under “Investment Considerations” in conjunction with the other information contained or incorporated by reference in this document.</p>

INVESTMENT CONSIDERATIONS

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

Deferral of Coupon Payment

The Issuer may elect to defer any Coupon Payment on the TOPICS if, in its sole discretion, it determines that, on the twentieth business day prior to the date on which such Coupon Payment would, in the absence of deferral, be due and payable, the Deferral Condition is satisfied, as more particularly described in “Terms and Conditions of the TOPICS – 4. Coupon Deferral”.

Restrictions following deferral of Coupon Payments

If the Issuer does defer a Coupon Payment, such Deferred Coupon Payment will be satisfied only on the date on which the TOPICS are redeemed. Any such Deferred Coupon Payment will not bear interest and, the Issuer may not and will procure that no member of the Abbey National Group will (a) declare or pay a dividend (other than a final dividend declared by the Issuer or a Subsidiary before such payment is so deferred) on any Junior Share Capital (other than shares or securities entirely held by the Issuer and/or a wholly-owned Subsidiary) or (b) redeem, purchase, reduce or otherwise acquire any Junior Share Capital, in either case until the Issuer next makes a Coupon Payment.

Perpetual securities

The Issuer is under no obligation to redeem the TOPICS at any time (save in the particular circumstances referred to in “Terms and Conditions of the TOPICS – 8. Payments – (d) Suspension”) and the TOPICS Holders have no right to call for their redemption.

Redemption and Exchange risk

The TOPICS may, subject to the prior consent of the FSA, be redeemed at their principal amount together with accrued Outstanding Payments at the option of the Issuer in the event that it is required to pay additional amounts as provided in “Terms and Conditions of the TOPICS – 11. Taxation”. In addition, upon the occurrence of certain specified tax and regulatory events, which in the case of tax events affect payments of interest falling due on or prior to 9 February 2018, the TOPICS may be exchanged or their terms varied so that they become Upper Tier 2 Securities (bearing interest at a rate of 0.25 per cent. per annum below the Coupon Rate on the TOPICS, subject to any step up applicable to the coupon rate of such Upper Tier 2 Securities) or, if that or any other such specified tax or regulatory event or any such requirement to pay additional amounts applies or would apply to the Upper Tier 2 Securities, the TOPICS may, subject to the consent of the FSA, be redeemed at their outstanding principal amount together with any Outstanding Payments all as more particularly described in “Terms and Conditions of the TOPICS – 7. Exchange for Upper Tier 2 Securities, Variation or Redemption”.

No limitation on issuing senior or *pari passu* securities

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

Availability of shares

If the Issuer uses the Alternative Coupon Satisfaction Mechanism either to make a Deferred Coupon Payment or, if the Issuer does not redeem the TOPICS on the First Reset Date, to make any Coupon Payment and a sufficient number of Ordinary Shares in the Issuer which may be allotted to investors free from pre-emption rights is not available, then the Issuer’s payment obligation shall be suspended (in the case of a Deferred Coupon Payment) completely and (in the case of a Coupon Payment after the First Reset Date) to the extent of such insufficiency until such time as a sufficient number of Ordinary Shares is available for the purposes of the suspended payment obligation, as more particularly described in “Terms and Conditions of the TOPICS – 6. Alternative Coupon Satisfaction Mechanism – (d) Insufficiency”.

No TOPICS may be redeemed unless all Outstanding Payments are satisfied at the same time. Accordingly, if the Issuer does not have a sufficient number of Ordinary Shares available in connection with the payment of all Outstanding Payments on redemption, unless the Issuer is permitted to and so elects to pay an amount equal to

the shortfall in the Outstanding Payments, the due date of redemption of any TOPICS shall not be until such time as all Outstanding Payments are satisfied at the same time.

Market Disruption Event

If, shortly before or during the operation of the Alternative Coupon Satisfaction Mechanism to satisfy a payment, a Market Disruption Event exists in the opinion of the Issuer, the payment to TOPICS Holders may be deferred until the cessation of such market disruption, as more particularly described in “Terms and Conditions of the TOPICS – 6. Alternative Coupon Satisfaction Mechanism – (e) Market Disruption”. Any such deferred payments shall bear interest at the rate applicable to the TOPICS if the Market Disruption Event continues for 14 days or more after the due date for payment.

Restricted remedy for non-payment

In accordance with current FSA requirements for subordinated capital, the sole remedy against the Issuer available to the Trustee or any TOPICS Holder for recovery of amounts owing in respect of the TOPICS and Coupons will be the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up and the TOPICS Holders’ claim in such winding-up shall be limited to the principal amount of the relevant TOPICS (and no amounts will be payable in respect of any Coupon).

Absence of prior public markets

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

TERMS AND CONDITIONS OF THE TOPICS

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

The TOPICS are constituted by the Trust Deed. The issue of the TOPICS was authorised pursuant to a resolution of the Board of Directors of the Issuer (the “Board”) passed on 23 July 2002 and a resolution of a committee of the Board passed on 8 August 2002. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement are available for inspection during normal business hours by the TOPICS Holders and the Couponholders at the principal office of the Trustee, being at 9 August 2002 at 101 Barclay Street, New York, NY 10286, United States of America, and at the specified office of each of the Paying Agents. The TOPICS Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) Form and Denomination

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

(b) Title

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

2 Status and Subordination

(a) Status

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

(b) Subordination

(i) Condition of Payment

The rights and claims of the TOPICS Holders and the Couponholders are subordinated to the claims of Senior Creditors, in that payments in respect of the TOPICS (including payments following the issue of Ordinary Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment by the Issuer and in that no principal or Payments shall be due and payable in respect of the TOPICS (including payments following the issue of Ordinary Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. In these Terms and Conditions, the Issuer shall be considered to be solvent if (aa) it is able to pay its debts to Senior Creditors as they fall due and (bb) the Solvency Condition is met. For the avoidance of doubt and without prejudice to paragraph (ii) and Condition 3, nothing in this paragraph (i) shall limit or restrict the Issuer’s obligation to pay such amounts in a winding up of the Issuer subject to and in accordance with these Terms and Conditions.

(ii) Solvency Claims

Amounts representing any payments of principal or interest in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable (“Solvency Claims”) will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3 (provided that in the winding-up of the Issuer, no amounts will be payable in respect of any Coupon, including any Deferred Coupon Payments) or on any redemption (subject to Condition 2(b)(i)). A Solvency Claim shall not bear interest.

(iii) **Set-off**

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

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

3 Winding-up

If at any time an order is made, or an effective resolution is passed, for the winding-up in England of the Issuer (except in any such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer (as defined in the Trust Deed), the terms of which reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), there shall be payable by the Issuer in respect of each of the TOPICS (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such TOPICS if, on the day prior to the commencement of the winding-up and thereafter, such TOPICS Holder were the holder of one of a class of preference shares in the capital of the Issuer having an equal right to a return of assets in the winding-up to, and so ranking *pari passu* with the holders of the RCIs and with the holders of, that class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over and so rank ahead of the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up of the Issuer is determined and senior to all other classes of issued shares (save as aforesaid) for the time being in the capital of the Issuer on the assumption that the amount that such TOPICS Holder was entitled to receive in respect of such preference share on a return of assets in such winding-up were an amount equal to the principal amount of the relevant TOPICS (and, in any such case, no amounts will be payable in respect of any Coupon, including, for the avoidance of doubt, any Deferred Coupon Payments).

4 Coupon Deferral

The Issuer must make each Coupon Payment on the relevant Coupon Payment Date subject to and in accordance with these Terms and Conditions. However, if on the twentieth business day preceding the date on which any Coupon Payment would, in the absence of deferral in accordance with this Condition 4, be due and payable, the Deferral Condition is satisfied, any such Coupon Payment may be deferred by the Issuer giving notice to the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to such date. The Issuer shall satisfy any such Deferred Coupon Payment on any redemption of the TOPICS in accordance with Condition 6.

If the Issuer has given such notice then (i) from the date of such notice until the Issuer next makes a Coupon Payment, the Issuer shall not and it shall procure that no member of the Abbey National Group shall (a) declare or pay a dividend (other than a final dividend declared by the Issuer or a Subsidiary before such Coupon Payment is so deferred) on any Junior Share Capital (other than shares or securities entirely held by the Issuer and/or a wholly-owned Subsidiary) or (b) redeem, purchase, reduce or otherwise acquire any Junior Share Capital (other than shares or securities held by the Issuer or a wholly-owned Subsidiary) and (ii) any such Deferred Coupon Payment shall be satisfied only in accordance with Condition 6. For the avoidance of doubt, no amount will be payable by way of interest on any such Deferred Coupon Payment, save as provided in Condition 6(e).

5 Coupon Payments

(a) Coupon Payment Dates

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

(b) *Coupon Rate*

- (i) The Coupon Rate in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date is 6.984 per cent. per annum.
- (ii) The Coupon Rate in respect of each Reset Period shall be the aggregate of 1.86 per cent. per annum and:
 - (aa) the offered rate (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) for six-month pounds sterling deposits as at 11.00 a.m. (London time) on the Coupon Determination Date in question as appears on the display designated as page “3750” on the Moneyline Telerate Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Principal Paying Agent;
 - (bb) if such offered rate does not appear, the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of offered quotations to leading banks in the London interbank market for six-month pounds sterling deposits as at 11.00 a.m. (London time) on the Coupon Determination Date in question obtained by the Principal Paying Agent from the principal London offices of the Reference Banks, provided at least two of the Reference Banks provide the Principal Paying Agent with such offered quotations; and
 - (cc) if, on any Coupon Determination Date to which the provisions of sub-paragraph (bb) above apply, one only or none of the Reference Banks provides the Principal Paying Agent with such a quotation, the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which major banks in London selected by the Principal Paying Agent are quoting at approximately 11.00 a.m. (London time) on the relevant Coupon Determination Date to leading banks in London for a period of six months,

except that, if the banks so selected by the Principal Paying Agent are not quoting as mentioned above, the Coupon Rate in respect of that Reset Period shall be either (i) the Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding sub-paragraphs of this paragraph shall have applied or (ii) if none, 6.984 per cent. per annum.

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

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

Each Coupon Amount in respect of any Accrual Period shall be calculated by multiplying the product of the Coupon Rate and the principal amount of one TOPICS of the relevant Authorised Denomination by the Day Count Fraction and rounding the resultant figure to the nearest penny (half a penny being rounded up).

(d) *Determination or Calculation by Trustee*

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

(e) *Reference Banks*

The Issuer will (with the prior written approval of the Trustee) not later than 20 business days before the First Reset Date appoint four leading financial institutions engaged in the London interbank market (each acting through its principal London office) to act as Reference Banks and will procure that, so long as any of the TOPICS are outstanding, there shall thereafter at all times be four Reference Banks. If any such institution (acting through its relevant office) is unable to continue to act as a Reference Bank, the Issuer shall (with the prior written approval of the Trustee) appoint some other leading financial institution engaged in the London interbank market (acting through its principal London office) to act as such in its place.

6 *Alternative Coupon Satisfaction Mechanism*

(a) *Alternative Coupon Satisfaction Mechanism*

Coupon Payments must be satisfied in accordance with Condition 8(a), provided that if:

- (i) under Condition 4 the Deferral Condition is satisfied and the relevant Coupon Payment is deferred, each such Deferred Coupon Payment will be satisfied on any redemption out of the Net Subscription Proceeds raised from the issue and allotment of Ordinary Shares in accordance with this Condition 6; or
- (ii) the Issuer does not exercise its right to redeem the TOPICS in accordance with Condition 7(b) on the First Reset Date, then, subject to any deferral pursuant to Condition 4, each Coupon Payment after the First Reset Date will be satisfied out of the Net Subscription Proceeds raised from the issue and allotment of Ordinary Shares in accordance with this Condition 6.

(b) *Issue of shares*

If any Payment is to be satisfied out of subscription proceeds raised from the issue and allotment of Ordinary Shares then subject to Condition 6(d), 6(e) and 8(d):

- (i) the Calculation Agent has agreed with the Issuer to use its reasonable endeavours to procure purchasers for such number of Ordinary Shares as, in the determination of the Calculation Agent, would raise Net Subscription Proceeds of an amount not less than the relevant Payment to be satisfied in accordance with this Condition 6;
- (ii) the Calculation Agent has agreed with the Issuer, by the close of business on the seventh business day prior to the date of redemption (in the case of Deferred Coupon Payments) or the relevant Coupon Payment Date (in the case of Coupon Payments after the First Reset Date which have not been deferred pursuant to Condition 4), to notify the Issuer of the number of Ordinary Shares for which Investors have agreed to subscribe and the subscription price therefor;
- (iii) the Issuer shall as soon as practicable following such notification and, in any event not later than by close of business on the sixth business day prior to the date on which the relevant Payment is due, issue and allot the number of Ordinary Shares subscribed for by Investors provided that the Issuer shall not be required to issue and allot any Ordinary Share at less than its par value; and
- (iv) the Calculation Agent shall hold the Net Subscription Proceeds as agent for the Issuer and, following the exchange of such proceeds, if necessary, into sterling at prevailing market exchange rates (which exchange the Calculation Agent has agreed to make as agent of the Issuer), shall pay the proceeds or, as the case may be, the exchanged proceeds (or that part of the proceeds or exchanged proceeds as would be sufficient to satisfy the relevant Payment) to the Principal Paying Agent on behalf of the Issuer on the due date of the relevant Payment for application in accordance with Condition 6(c).

If, after the operation of the above procedures, there would, in the opinion of the Calculation Agent, be a shortfall on the date on which the relevant Payment is due, the Calculation Agent has agreed with the Issuer to continue to use its reasonable endeavours to procure purchasers for further Ordinary Shares and the Issuer shall issue and allot further Ordinary Shares to Investors so that the total Net Subscription Proceeds raised will be in a sum sufficient to make the Payment in full on the relevant date, provided that if, despite the operation of the aforementioned provisions, such a shortfall exists on the relevant date, the Issuer may in accordance with the provisions of the Calculation Agency Agreement either pay an amount equal to the shortfall as soon as practicable or continue to issue and allot Ordinary Shares to Investors in order to raise sufficient subscription proceeds to discharge payment of such shortfall after the relevant date.

(c) *Payment Satisfaction*

If any Payment or, in the circumstances referred to in Condition 6(d) below the relevant part of such Payment is to be satisfied out of Net Subscription Proceeds raised from the issue and allotment of Ordinary Shares as provided for in Condition 6(b), such proceeds shall be paid by the Principal Paying Agent to the TOPICS Holders in respect of the relevant Payment (or part thereof) and the Issuer's obligations to satisfy such Payment in full shall not be discharged until the TOPICS Holders have been so paid in full.

(d) *Insufficiency*

If the Issuer is to satisfy a Payment in accordance with this Condition 6 and the Issuer does not, on the date when the number of such Ordinary Shares required to be issued and allotted is determined in accordance with this Condition 6, have a sufficient number of Ordinary Shares available for issue and allotment free from pre-emption rights, then the Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the TOPICS Holders that all or part, as the case may be, of the relevant Payment cannot be so satisfied due to such insufficiency, in which case the same shall be satisfied following the date of the next annual general meeting or extraordinary general meeting of shareholders of the Issuer at which the necessary resolution(s) (including any resolutions necessary to allot shares in accordance with the provisions of Section 80 of the Companies Act or to disapply the provisions of Section 89 of the Companies Act) is or are passed authorising a sufficient number of Ordinary Shares for the purpose of making payment of all or such part of the relevant Payment provided that if the number of Ordinary Shares authorised to be issued at any such meeting is insufficient for the purpose of enabling the Issuer to make a payment satisfying all or such part of the relevant Payment then, save as provided in the paragraph below, the proceeds of issuing those Ordinary Shares shall be applied by the Issuer in part satisfaction of the relevant Payment. Following the passing of any such resolution, the Issuer shall notify the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent of the date upon which the relevant Payment or, as the case may be, the part thereof is to be made in accordance herewith on not less than 16 business days' notice. If the Issuer does not, within 12 months of giving the above first-mentioned notice, hold an annual or extraordinary general meeting at which the necessary resolution(s) to make a sufficient number of Ordinary Shares so available is or are proposed, the Trustee shall by notice require the Issuer to convene an extraordinary general meeting at which such a resolution shall be proposed on a date falling within 10 weeks of such notice from the Trustee. In the event that any such resolution proposed at any such annual general meeting or extraordinary general meeting is rejected, such resolution will then be proposed at the next following annual general meeting of the Issuer and, if at such annual general meeting such proposal is rejected again, then, from the date of such second rejection the Issuer shall not and it shall procure that no member of the Abbey National Group shall (a) declare or pay a dividend (other than a final dividend declared by the Issuer or a Subsidiary before the date of such second rejection) on any Junior Share Capital (other than shares or securities entirely held by the Issuer and/or a wholly-owned Subsidiary) or (b) redeem, purchase, reduce or otherwise acquire any Junior Share Capital (other than shares or securities held by the Issuer or a wholly-owned Subsidiary), in each case until such time as such resolution(s) has or have been passed by the shareholders of the Issuer or there are otherwise a sufficient number of Ordinary Shares available for issue and allotment.

No TOPICS may be redeemed pursuant to the provisions of Conditions 7(b), 7(c), 7(d) and 8(d), unless all Outstanding Payments are satisfied at the same time. Further, all Outstanding Payments shall be satisfied at the same time on the due date for redemption. In the event that the Issuer does not have a sufficient number of Ordinary Shares available for issue and allotment for the purpose of enabling the Issuer to make a payment satisfying all such Outstanding Payments which are required to be satisfied in accordance with this Condition 6 and the Issuer does not (where it is so permitted) otherwise make a payment to satisfy such Outstanding Payments, then the due date of redemption of any TOPICS shall not be until such time as all Outstanding Payments are satisfied at the same time.

(e) *Market Disruption*

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the fifteenth business day preceding any date upon which the Issuer is due to make or satisfy a payment in accordance with this Condition, then the Issuer may give a notice to the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant Payment may be deferred until such time as the Market Disruption Event no longer exists.

Any such deferred payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred payment unless, as a consequence of the existence of a Market Disruption Event, the Issuer does not make the relevant Payment for a period of 14 days or more after the date which, but for such deferral, would have been the due date therefor, in which case interest shall accrue on such deferred payment from (and including) (i) the date which but for such deferral, would have been the due date of redemption, in the case of Deferred Coupon Payments or (ii) the relevant Coupon Payment Date in the case of Coupon Payments due after the First Reset Date and in respect of which no deferral of payment has been made pursuant to Condition 4 to (but excluding) the date on which such payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with Condition 6 and as soon as reasonably practicable after the relevant deferred payment is made. No liability shall attach to the Trustee or its agents if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

(f) Listing

The Issuer shall ensure (to the extent possible) that, at the time when any Ordinary Shares are issued pursuant to Condition 6, such Ordinary Shares are listed on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the market for listed securities of the London Stock Exchange (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

7 Exchange for Upper Tier 2 Securities, Variation or Redemption

(a) No Fixed Redemption Date

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

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

(b) Issuer's Call Option

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

(c) Exchange for Upper Tier 2 Securities, Variation or Redemption due to Taxation

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that:

- (i) the Issuer would be unable to make the Payment which next falls due (or, but for Condition 2(b) or an election made pursuant to Condition 4, would next fall due) in respect of the TOPICS without being required to pay additional amounts as provided in Condition 11; or
- (ii) payments of amounts in respect of interest on the TOPICS which fall due (or, but for Condition 2(b) or an election made pursuant to Condition 4, would fall due) on or prior to the First Reset Date (including, for the avoidance of doubt, payments following the issue of Ordinary Shares pursuant to Condition 6), may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published

interpretation of such laws, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such law or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the TOPICS, which change or amendment becomes, or would become, effective or, in the case of a change or proposed change in law which is enacted by Act of Parliament or made by Statutory Instrument (or, in the case of a proposed change, is expected to be enacted or made), on or after 9 August 2002, there is more than an insubstantial risk that the Issuer will not obtain relief for the purposes of United Kingdom corporation tax for the next following payment of interest which falls due (or, but for Condition 2(b) or an election made pursuant to Condition 4, would fall due) on or prior to the First Reset Date (including, for the avoidance of doubt, where the payment of interest is to be satisfied by the Alternative Coupon Settlement Mechanism) or, as a result of the TOPICS being in issue, the Issuer may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate,

then

- (aa) in any case where paragraph (i) above applies, the Issuer may, provided that the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been met, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 16, the TOPICS Holders (which notice shall be irrevocable) redeem in accordance with these Terms and Conditions, all, but not some only, of the TOPICS at their principal amount together with any Outstanding Payments on any Coupon Payment Date; or
- (bb) in any case where either of paragraphs (ii) or (iii) above applies, the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the TOPICS Holders or, save as specified below, the Trustee) having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 16, the TOPICS Holders (which notice shall be irrevocable) exchange the TOPICS for, or vary the terms of the TOPICS so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments. Notice of any such exchange or variation shall be published in accordance with Condition 16 and shall set out, inter alia, details of the manner in which such exchange or variation shall be effected. If any of the conditions listed in paragraphs (i), (ii) or (iii) above apply or continue to apply to the Upper Tier 2 Securities for or into which the TOPICS have been exchanged or varied, or if the Issuer shows to the satisfaction of the Trustee that any of these conditions would apply if such exchange or variation were to take place, or if the consent of the Financial Services Authority is not given, the Issuer may, provided that the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been met, having given not less than 30 nor more than 60 days' notice to the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable) redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the TOPICS or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments on any Coupon Payment Date. The Trustee shall use its reasonable endeavours to assist the Issuer in the exchange or variation of the TOPICS for or into Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the TOPICS are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the TOPICS as provided above.

Prior to the publication of any notice of exchange, variation or redemption pursuant to this Condition 7(c) the Issuer shall deliver to the Trustee a certificate signed by a Director of the Issuer stating that the relevant requirement or circumstance referred to in paragraphs (i), (ii) or (iii) above applies and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the TOPICS Holders. Upon expiry of such notice the Issuer shall either redeem, vary or exchange the TOPICS, as the case may be.

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

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that the Financial Services Authority has determined that the TOPICS no longer qualify as Tier 1 Capital then the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the TOPICS Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable) exchange the TOPICS for, or vary the terms of the TOPICS so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments. Notice of any such exchange or variation shall be published in accordance with Condition 16 and shall set out, inter alia, details of the manner in which such exchange or variation shall be effected.

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

(e) *Purchases*

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

(f) *Cancellation*

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

8 *Payments*

(a) *Method of Payment*

- (i) Payments of principal and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of TOPICS or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relative TOPICS. Such payments will be made, at the option of the payee by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any TOPICS, any unexchanged Talon relating to such TOPICS (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such TOPICS (whether or not attached) shall also become void and no payment shall be made in respect of them. If any TOPICS is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any TOPICS, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 12).
- (iv) The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain (aa) a Paying Agent having a specified office outside the United Kingdom and (bb) for so long as the TOPICS are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, a Paying Agent having a specified office in Luxembourg and (cc) a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a European Member State unless at least one Member State of the European Union does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the TOPICS Holders in accordance with Condition 16.

(b) *Payments subject to Fiscal Laws*

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

(c) *Payments on Payment Business Days*

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

(d) *Suspension*

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the Issuer shall as soon as practicable give notice to the TOPICS Holders in accordance with Condition 16, the Trustee, the Principal Paying Agent and the Calculation Agent, whereupon the Issuer's obligation to satisfy a Payment by the method contemplated by Condition 6 shall be suspended (such event being a "Suspension"). In such event (unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place)), an independent investment bank appointed by the Issuer (at the Issuer's expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Issuer shall not be obliged to reduce its net assets, (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the TOPICS for banking capital adequacy purposes without the prior consent of the Financial Services Authority, and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Terms and Conditions, the Trust Deed and any other relevant documents are appropriate in order to preserve substantially the economic effect, for the TOPICS Holders, of a holding of the TOPICS prior to the Suspension. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without the consent of the TOPICS Holders or Couponholders, effect any necessary consequential changes to these Terms and Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer's obligation to satisfy a Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and each TOPICS shall (subject to the prior consent of the Financial Services Authority and with the prior agreement of the new Ultimate Owner) be redeemed by the Issuer, following notice, to the TOPICS Holders in accordance with Condition 16 by the Issuer of such redemption as soon as practicable after receipt of the consent of the Financial Services Authority, at the Suspension Redemption Price, together with any Outstanding Payments, not later than the sixtieth business day following the giving of such notice by the Issuer to the TOPICS Holders. Unless otherwise agreed by the Issuer and the Trustee, to enable such redemption payment to be made, the Issuer shall issue Ordinary Shares (subject to Condition 6(d)) to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or share capital of an equivalent class) so as to enable it to pay such redemption amount in accordance, *mutatis mutandis*, with Condition 6(b), (c), (d) and (e) (with references to the Ordinary Shares being construed as references to such ordinary shares or equivalent share capital of the new Ultimate Owner which, when issued, provide a net cash amount (converted into sterling if necessary) of not less than the redemption amount so payable by the Issuer). Following the First Reset Date, if the new Ultimate Owner's agreement to such redemption has not been obtained, the restrictions set out in the second paragraph of Condition 4 shall apply, *mutatis mutandis*, until such agreement has been obtained.

9 Pre-emption

The Issuer shall, subject to compliance with the requirements of the Companies Act, use its reasonable endeavours to obtain all corporate authorisations and take other corporate actions required for the issue and allotment of such number of Ordinary Shares as it reasonably considers would be required to be issued in order to enable the Issuer to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and, after the First Reset Date, the next two Coupon Payments falling due thereafter (subject to any deferral pursuant to Condition 4) provided that such reasonable endeavours shall be satisfied where the relevant corporate authorisation required is the passing of a resolution of the shareholders of the Issuer if the board of directors of the Issuer proposes the relevant resolution to its shareholders for approval at any general meeting and, if such proposal is rejected, the relevant resolution is proposed again at the next general meeting.

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

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

For the avoidance of doubt, any shares which the Issuer is required to keep available for issue other than in connection with the TOPICS shall be discounted in determining whether the Issuer is complying with its obligations under this Condition 9.

10 Non-Payment when Due

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

- (a) If the Issuer shall not make payment in respect of the TOPICS (in the case of payment of principal) for a period of 7 days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment or any payment under Clause 3.4 of the Calculation Agency Agreement in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the TOPICS and the Coupons and the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 10, institute proceedings for the winding-up in England of the Issuer.

- (b) Subject as provided in Condition 9, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the TOPICS or the Coupons (other than for the payment of any principal or satisfaction of any Payments in respect of the TOPICS or the Coupons, including any payment under Clause 3.4 of the Calculation Agency Agreement) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the TOPICS or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the TOPICS Holders or in writing by the holders of at least one-quarter in principal amount of the TOPICS then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (d) No TOPICS Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up in England of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the TOPICS Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any TOPICS Holder or Couponholder (i) for the recovery of amounts owing in respect of the TOPICS or the Coupons (including any payment under Clause 3.4 of the Calculation Agency Agreement), other than the institution of proceedings for the winding-up in England of the Issuer and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the TOPICS or the Coupons, other than as provided in paragraph (b) above.

11 Taxation

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

- (a) by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such TOPICS or Coupon by reason of such holder's having some connection with the United Kingdom other than the mere holding of such TOPICS or Coupon; or
- (b) if the holder would be able to avoid such withholding or deduction by satisfying any statutory requirements and/or by making a declaration of non-residence or other similar claim for exemption but, in either case, fails to do so; or
- (c) more than 30 days after the Relevant Date, except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) by or on behalf of a holder of a TOPICS or a Coupon who would have been able to avoid such withholding or deduction by presenting the relevant TOPICS or Coupon to another Paying Agent in a Member State of the European Union.

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

12 Prescription

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

13 Meetings of TOPICS Holders, Modification, Waiver and Substitution

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

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

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

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

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

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

In connection with any substitution or such exercise as aforesaid, no TOPICS Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Issuer or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of, or relating to, any such substitution or exercise (including, for the avoidance of doubt, any tax consequences arising from such substitution or exercise relating to subsequent payments made in respect of the TOPICS) upon any individual TOPICS Holders or Couponholders except to the extent already provided in Condition 11 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

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

14 Replacement of the TOPICS, Coupons and Talons

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

15 The Trustee

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

16 Notices

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

17 Further Issues

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

18 Agents

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

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

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

19 Governing Law

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

20 Contracts (Rights of Third Parties) Act 1999

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

21 Definitions

In these Terms and Conditions:

“Abbey National Group” and “Group” means Abbey National plc and its Subsidiaries;

“Accrual Period” means the relevant period for which interest is to be calculated (from and including the first such date to but excluding the last);

“Agency Agreement” means the agency agreement dated 9 August 2002 between the Issuer, the Trustee and the Paying Agents, relating to the TOPICS under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions;

“Alternative Coupon Satisfaction Mechanism” means the mechanism described in Condition 6;

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

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

“Authorised Denominations” means £1,000, £10,000 and £100,000;

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

“Calculation Agency Agreement” means the calculation agency agreement dated 9 August 2002 between the Issuer, the Trustee and the Calculation Agent, relating to the TOPICS under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions;

“Calculation Agent” means Lehman Brothers International (Europe) as calculation agent in relation to the TOPICS, or its successor or successors for the time being appointed under the Calculation Agency Agreement;

“Capital Regulations” means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA.

“Companies Act” means the Companies Act 1985 (as amended);

“Coupon” means an interest coupon relating to a TOPICS and includes, where the context so permits, a Talon;

“Coupon Amount” means, in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Accrual Period in accordance with Condition 5;

“Coupon Determination Date” means, in relation to each Reset Date, such Reset Date;

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

“Coupon Payment Date” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 9 February and 9 August in each year, starting 9 February 2003 and (ii) after the First Reset Date, 9 February and 9 August in each year, starting 9 August 2018, provided that if any Coupon Payment Date after the First Reset Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day;

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

“Couponholder” means the bearer of any Coupon;

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

“Day Count Fraction” means:

- (a) in respect of each Accrual Period from the Issue date to the First Reset Date, the number of days in the Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) in respect of each Accrual Period from and after the First Reset Date, the actual number of days in the Accrual Period in respect of which payment is being made divided by 365 or (in the case of a Accrual Period ending in a leap year) by 366;

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

the “Deferral Condition” will be satisfied if, in the determination of the Issuer, on the relevant date the Issuer is, or payment of the relevant Payment will result in the Issuer being, not in compliance with the applicable Capital Regulations;

“Deferred Coupon Payment” means any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied;

“Determination Period” means the period from and including 9 February in any year to but excluding the next 9 August or, as the case may be, from and including 9 August in any year to but excluding the next 9 February;

“Directors” means directors of Abbey National plc;

“Eligible Company” means a company incorporated in England by or on behalf of the Issuer whose ordinary shares are listed (i) on the official list of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the market for listed securities of the London Stock Exchange or (ii) on such other internationally recognised stock exchange as the Trustee may approve;

“FSA” or “Financial Services Authority” means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Issuer;

“First Reset Date” means 9 February 2018;

“holding company” has the meaning ascribed to it under Section 736 of the Companies Act;

“Holding Company Shares” means ordinary shares of the New Holding Company;

“interest” shall, where appropriate, include Coupon Amounts and Deferred Coupon Payments;

“Investors” means placees and all other purchasers (including, where the context so requires, their nominees) who have agreed to subscribe for Ordinary Shares under any arrangement made by the Calculation Agent for the purpose of placing or otherwise procuring purchasers for Ordinary Shares in accordance with the terms of the Calculation Agency Agreement;

“Issue Date” means 9 August 2002, being the date of initial issue of the TOPICS;

“Issuer” means Abbey National plc;

“Junior Share Capital” means the Ordinary Shares, together with any other securities of any member of the Abbey National Group expressed to rank junior as to the right to payment to the TOPICS, whether issued directly by the Issuer or by a subsidiary benefiting from a guarantee or support agreement from the Issuer expressed to rank or ranking junior to the TOPICS which, for the avoidance of doubt, shall not include (i) the U.S.\$1,000,000,000 8.963 per cent. Non-Cumulative Trust Preferred Securities of Abbey National Capital Trust I or (ii) the RCIs or (iii) the Preference Shares or (iv) any other securities or shares issued directly by the Issuer or by a subsidiary benefiting from a guarantee or support agreement from the Issuer, in any such case, ranking *pari passu* therewith;

“Junior Subordinated Debt” means the Issuer’s outstanding debt securities which constitute Upper Tier 2 Capital and such other securities outstanding from time to time which rank *pari passu* with such securities;

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

“London Stock Exchange” means the London Stock Exchange plc;

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

“Net Subscription Proceeds” means proceeds of an issue and allotment of Ordinary Shares by the Issuer after deducting all costs and expenses incurred by the Issuer in connection with such issue and allotment including, without limitation, any fees, costs and expenses payable by the Issuer to the Calculation Agent and any duties and taxes payable by the Issuer in connection therewith;

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

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

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

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

“Payment” means any Coupon Payment, Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

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

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

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

“Preference Shares” means the 10% per cent. Non-Cumulative Sterling Preference Shares of £1 each of the Issuer, the 8% per cent. Non-Cumulative Sterling Preference Shares of £1 each of the Issuer, the 8.75 per cent. Non-Cumulative Dollar-denominated Preference Shares, Series A, of the Issuer and the 7.375 per cent. Non-Cumulative Dollar-denominated Preference Shares, Series B, of the Issuer and such other preference shares outstanding from time to time which rank *pari passu* with such preference shares;

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

“RCIs” means the Issuer’s outstanding £300,000,000 7.037 per cent. Step-up Callable Perpetual Reserve Capital Instruments issued on 14 February 2001;

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

“Reference Bond” means, in relation to any calculation of the Suspension Redemption Price, the 8 per cent. Treasury Stock due December 2015, or if such security is no longer in issue, such other United Kingdom government security as the Calculation Agent may, with the advice of the Reference Dealers, determine to be appropriate for determining the Suspension Redemption Price;

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

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

“Reset Date” means the First Reset Date and each Coupon Payment Date thereafter;

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

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

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

“Solvency Claim” has the meaning ascribed to it in Condition 2(b)(ii).

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

“Subsidiary” means each subsidiary for the time being of the Issuer;

“subsidiary” has the meaning ascribed to it under Section 736 of the Companies Act;

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

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

“Suspension Redemption Price” means, in respect of each of the TOPICS, (a) the Authorised Denomination of such TOPICS or, if higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae: Conventional Gilts; Double Dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date published on 8 June 1998 (as amended or updated from time to time)) on the TOPICS (assuming their redemption at their principal amount on the First Reset Date) would, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, be equal to the gross redemption yield on such dealing day of the Reference Bond plus 0.50 per cent., on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such dealing day;

“Talon” means a talon for further Coupons;

“Tier 1 Capital” has the meaning ascribed to it in the FSA’s Interim Prudential Sourcebook for Banks (as amended from time to time) or any successor publication replacing such publication;

“TOPICS” means the £175,000,000 6.984 per cent. Fixed/Floating Rate Tier One Preferred Income Capital Securities, and such expression shall include, unless the context otherwise requires, any further TOPICS issued pursuant to Condition 17 and forming a single series with the TOPICS;

“TOPICS Holder” means the bearer of any TOPICS;

“Trust Deed” means the trust deed dated 9 August 2002 between the Issuer and the Trustee;

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

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

“Upper Tier 2 Capital” has the meaning ascribed to in the FSA’s Interim Prudential Sourcebook for Banks (as amended from time to time) or any successor publication replacing such publication; and

“Upper Tier 2 Securities” means securities of the Issuer that:

- (a) have substantially similar terms to the TOPICS save that (1) they shall contain terms no less favourable to an investor than the then current minimum requirements of the Financial Services Authority in relation to Upper Tier 2 Capital and (2) the Coupon Rate of such securities shall be determined in such manner as shall result in it being 0.25 per cent. per annum below the Coupon Rate from time to time applying to the TOPICS provided that the Coupon Rate of such securities shall be the subject of a step-up, which shall apply to each Coupon Period commencing on or after 9 February 2018, of the then maximum percentage permitted by applicable Financial Services Authority guidelines relating to Upper Tier 2 Capital; and
- (b) are listed on the Luxembourg Stock Exchange at the time when they are issued (or, if the Luxembourg Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

USE OF PROCEEDS

The net proceeds of the issue of the TOPICS are estimated to amount to £173,150,000 and will be used to strengthen the capital base of the Abbey National Group.

SUMMARY OF PROVISIONS RELATING TO THE TOPICS WHILE IN GLOBAL FORM

Exchange

The TOPICS will be represented initially by a Temporary Global TOPICS in bearer form without Coupons or Talons which will be deposited outside the United States with a common depositary for Clearstream, Luxembourg and Euroclear on or about 9 August 2002. The Temporary Global TOPICS will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global TOPICS in bearer form without Coupons or Talons on or after a date which is expected to be 18 September 2002 (the “Exchange Date”) upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global TOPICS. Upon deposit of the Temporary Global TOPICS or the Permanent Global TOPICS (each a “Global TOPICS”) with a common depositary for Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of TOPICS equal to the principal amount thereof for which it has subscribed and paid.

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

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

For so long as any of the TOPICS are represented by a Global TOPICS, each person who is for the time being shown in the records of Clearstream, Luxembourg and/or Euroclear as the holder of a particular principal amount of such TOPICS (in which regard any certificate or other document issued by Clearstream, Luxembourg and/or Euroclear as to the principal amount of such TOPICS standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Paying Agents as the holder of such principal amount of such TOPICS for all purposes other than with respect to the payment of principal and interest on such principal amount of such TOPICS, the right to which shall be vested, as against the Issuer, the Trustee and the Paying Agents, solely in the bearer of the Global TOPICS (in accordance with and subject to its terms and the Trust Deed) and the expressions “TOPICS Holder”, “holder of TOPICS” and related expressions shall be construed accordingly. Interests in TOPICS which are represented by a Global TOPIC will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

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

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

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

On or after the Permanent Global Exchange Date the holder of the Permanent Global TOPICS shall surrender the Permanent Global TOPICS to or to the order of the Principal Paying Agent. In exchange for the Permanent Global TOPICS, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed

and authenticated definitive TOPICS having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global TOPICS and a Talon.

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

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

Payments

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

Notices

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

Meetings

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

Purchase and cancellation

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

Trustee's powers

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

THE ABBEY NATIONAL GROUP

The Abbey National Group

Abbey National plc was incorporated in England and Wales on 12 September 1988. The Abbey National Group offers over 15 million customers in the United Kingdom a comprehensive range of personal financial services including savings and investments, mortgages, banking, pensions, unit trusts, life and general insurance products and secured and unsecured lending. The Abbey National Group also has retail operations in France and Italy and offshore operations in Jersey, the Isle of Man, Gibraltar, Portugal, Hong Kong and Dubai. The Abbey National Group is regulated by the Financial Services Authority.

UK Retail banking

UK Retail Banking is the Abbey National Group's largest business, providing and distributing a comprehensive range of personal financial services in the UK. Its products and services include residential mortgages, savings and deposit products, current account banking, investment offerings and unsecured personal loans.

Products are distributed through the retail branch network, a telephone sales and marketing operation, e-banking, automated teller machines in all major UK population centres and business development units. A financial planning and advisory service covering life assurance, savings, pension plans and investment opportunities is also provided through the branch network.

Wholesale banking

The wholesale bank of the Abbey National Group, Abbey National Treasury Services plc ("ANTS"), comprises a Commercial Banking business (including asset financing, commercial lending operations, securities financing and risk management activities), a large Investment Portfolio and the Abbey National Group's Treasury activities.

ANTS is a significant participant in the international financial markets, where it has expertise in structuring tailored financing for internal and external customers. Abbey National Financial Products ("ANFP"), a branch of ANTS, offers integrated derivative solutions to meet the risk management needs of third parties and the Abbey National Group. ANFP combines expertise in fixed income products, structured products, equity derivatives and credit derivatives.

Wealth management and Long-Term Savings

The Wealth Management and Long-Term Savings businesses serve over 600,000 customers, and have deposits of almost £10 billion. In July 2001, Fleming Premier Banking was acquired to boost the position of the Abbey National Group in the premier banking market. The division also includes Inscape (an investment management business for high-net-worth individuals), Abbey National Offshore and cahoot, an e-banking venture with over 239,000 accounts. The division also includes Scottish Mutual and Scottish Provident (which was acquired in August 2001). Scottish Provident has provided the Abbey National Group with a leading position in the individual protection market in the UK.

Directors of Abbey National

The following table sets forth the directors of Abbey National plc.

Name	Position	Other principal activities
Lord Burns	Executive Chairman	Chairman, Glas Cymru Limited (Welsh Water) Non-Executive Director, Pearson Group PLC Non-Executive Director, British Land PLC
Executive Directors		
Stephen Hester	Group Finance Director	
Yasmin Jetha, FCMA	Group IT and Infrastructure Director	
Mark A Pain, FCA	Managing Director, Wholesale Banking	
Malcolm Millington	Managing Director, Wealth Management and Long Term Savings	
Andrew H Pople	Managing Director, Retail Banking	Chairman of the Executive Committee of the Council of Mortgage Lenders
Non-Executive Directors		
Leon Allen		Non-Executive Chairman, Braes Group Limited
Richard Hayden		Executive Chairman, GSC Partners Europe Limited
Vittorio Radice		Chief Executive, Selfridges PLC Non-Executive Director, Shoppers Stop India Limited Non-Executive Director, New West End Company Limited
Peter Ogden		Director, Computacenter PLC Chairman, Computasoft Limited Chairman, Omnia Limited Director, PSION PLC
The Lord Shuttleworth, FRICS		
Keith S Woodley, FCA	Deputy Chairman and Senior Independent Non-Executive Director	Complaints Commissioner for the London Stock Exchange

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

On 19 July 2002, Ian Harley resigned as Chief Executive of the Abbey National Group.

Interim Results for the six months to 30 June, 2002

The following is extracted from the Group's interim results announcement made to the London Stock Exchange by Abbey National plc on 24 July 2002:

Group highlights

	6 months to 30 June 2002	6 months to 30 June 2001 Restated	6 months to 31 Dec 2001 Restated
Total income	£2,143m	£2,296m	£2,239m
Less: depreciation of operating lease assets	£(111)m	£(120)m	£(136)m
Operating income	£2,032m	£2,176m	£2,103m
Expenses	£913m	£905m	£909m
Add: goodwill amortisation	£33m	£8m	£28m
Operating expenses	£946m	£913m	£937m
Retail financial services lending provisions	£147m	£145m	£109m
Wholesale Bank provisions	£242m	£64m	£192m
Profit before tax	£697m	£1,054m	£865m
Cost: income ratio (excluding goodwill amortisation)	44.9%	41.6%	43.2%
Earnings per ordinary share	29.6p	47.8p	38.8p
Post-tax return on average ordinary shareholders' equity	11.6%	20.4%	15.6%
Dividends per ordinary share	17.65p	16.80p	33.20p
Tier 1 capital	9.1%	9.5%	8.7%
Equity Tier 1 capital	7.0%	7.8%	6.6%

Profit before tax down 34% to £697 million (2001: £1,054 million).

Total operating income was 7% lower at £2,032 million (2001: £2,176 million), with a 2% rise in net interest income more than offset by the fall in non-interest income. Excluding the one-off impact of significant asset disposals in 2001 and the impact of losses on asset disposals in the Wholesale Bank, total operating income was broadly flat.

Total operating expenses increased by 4% to £946 million (2001: £913 million). Excluding goodwill, the increase was less than 1% on the same period last year.

A cost: income ratio excluding goodwill amortisation of 44.9% (2001: 41.6% or 43.6% excluding the impact of asset disposals).

Retail related provisions, including First National, were broadly flat at £147 million (2001: £145 million), with improved credit quality offsetting loan asset growth of 6%.

Wholesale Bank provisions were £242 million (2001: £64 million), in addition to which £30 million of losses on asset disposals (H1 2001: £nil, H2 2001: £15 million) have impacted the income line. This is in line with previous market guidance and reflects a move towards a more conservative approach to provisioning in the Wholesale Bank through 2002, in view of the difficult credit markets and a deterioration in certain sectors.

Earnings per share of 29.6 pence, declined by 38% (2001: 47.8 pence), and post-tax return on equity was 11.6% (2001: 20.4%).

The interim dividend is up 5% to 17.65 pence (2001: 16.80 pence).

Equity Tier 1 ratio of 7.0% (December 2001: 6.6%), but down from June 2001 following the completion of the Scottish Provident acquisition in the second half of 2001.

Divisional summary

Profit before tax:¹

	6 months to 30 June 2002 £m	6 months to 30 June 2001 Restated £m	6 months to 31 Dec 2001 Restated £m
Retail Banking	623	672	603
Retail Bank	464	529	456
Abbey National Life	114	98	104
Retail Insurance	45	45	43
Wealth Management and Long-Term Savings	170	110	165
Scottish Mutual	64	63	101
Scottish Provident 2	52	-	30
First National	54	62	32
Wealth Management (incl. Inscape and Europe)	17	21	29
cahoot	(17)	(36)	(27)
Wholesale Banking	50	307	197
Group Infrastructure	(146)	(35)	(100)
Profit before tax	697	1,054	865

1 Refer to Appendix 3.5 for details of prior year profit and loss restatements.

2 The comparative profit before tax of £30 million is for the 5 months to 31 December 2001.

Retail Banking

Retail Banking profit before tax decreased 7% to £623 million (2001: £672 million), due to the £49 million profit on sale of the credit card business in 2001. Excluding this item, profit before tax was flat on last year, reflecting the balance struck between market share and managed spread decline in the competitive core marketplace. In the housing market, we remain focused on quality business rather than volume, and ensuring that prudent lending standards are maintained.

Net interest income of £817 million is slightly ahead of 2001 levels (2001: £801 million), reflecting asset growth partially offset by the expected margin compression. The Retail Banking spread was 182 basis points (2001: 192 basis points).

Non-interest income (net of operating lease depreciation) fell by 13% to £397 million (2001: £457 million), due primarily to the £49 million profit on sale of the credit card business in 2001, and reduced income as a result of the sale of First National Vehicle Holdings (previously reported as part of Business Finance in First National). On a like for like basis, non-interest income is broadly stable.

Operating expenses are 5% higher at £521 million (2001: £498 million), substantially driven by incremental investment spend. This relates to the development of our general insurance, mortgage processing and CRM platforms. Additional marketing and headcount related spend was also incurred in attacking the 'Big 4' in current accounts and SME banking.

Retail lending related provisions were lower at £70 million (2001: £88 million), with credit quality in the Retail Bank remaining excellent. The business has taken a cautious approach to higher multiple secured lending to certain market segments, coupled with a reduction in the proportion of mortgage lending to customers with a loan to value of above 90%. Arrears levels and properties in possession continued to improve in the first six months of 2002.

Wealth Management and Long-Term Savings

Profit before tax in Scottish Mutual (excluding the impact of Scottish Provident) was broadly flat at £64 million (2001: £63 million), but down on the second half of 2001 due to reduced sales of UK-based with profits bonds.

Scottish Provident contributed £52 million in profit before tax. Integration costs of £13 million were incurred in this period, offset by the inclusion of part of the related cost savings.

Profit before tax in First National was down on the first half of last year, mainly due to one-off profits included in 2001. However, this result was up 69% on the second half of the year, in part due to a significant reduction in the cost base. Secured lending continues to perform well with strong increases in volume, while Motor Finance has improved markedly on last year with higher volumes more than offsetting an element of margin compression.

The retail point of sale finance business continues to suffer as a result of a decline in the point of sale instalment credit market, and consequently, reduced customer balances.

Wealth Management profit before tax fell to £17 million (2001: £21 million), reflecting spread narrowing in Abbey National Offshore driven by a low interest rate environment, and increased investment spend across the businesses including the integration and re-branding of Fleming Premier Banking into Cater Allen Private Bank. This has been partly offset by strong growth in retail deposit balances in Cater Allen Private Bank and the return to profitability of operations in Continental Europe. UK distribution costs associated with Inscape are now included within the Retail Bank, with costs associated with funds administration and offshore sales retained in this division. Prior years have been restated accordingly.

Operating losses relating to cahoot have more than halved to £(17) million (2001: £(36) million). This reflected the fall away of set up costs, as well as progression towards critical mass in terms of customer numbers. Deposit balances are now earning a positive margin and have suffered modest decline, in line with expectations, as a result of the re-pricing.

Wholesale Banking

Profit before tax of £50 million (2001: £307 million) was down £257 million, largely resulting from a move towards a more conservative approach to provisioning over the course of 2002.

Operating income of £482 million is 9% lower than last year (2001: £527 million). Net interest income reduced slightly due to the restructuring of the investment portfolio, particularly high yield, while non-interest income was affected by £30 million of losses on asset disposals.

Operating expenses increased by 25% to £106 million (2001: £85 million), primarily as a result of 2001 expansion which, whilst now curtailed, has a significant full period impact in 2002.

Wholesale Banking provisions increased from £64 million to £242 million. In addition, £30 million of asset disposal losses have been taken through the non-interest income line. The combined impact is in line with total provisions and losses on disposals of £271 million incurred in the full year 2001. Over 80% relate to exposures to high yield securities, private equity, and corporate securities which were investment grade when acquired.

2002 is expected to be the peak of the provisioning cycle. Whilst further provisioning will be required in 2003, this is expected to be substantially lower than in 2002.

Group Infrastructure

Loss before tax in Group Infrastructure increased from £35 million to £146 million.

Operating income has fallen by £105 million to £(10) million. This was due to the £52 million profit on disposal of Aitken Campbell, other smaller non-core disposals in 2001, and funding costs relating to the Scottish Provident acquisition. Both periods include the impact of reserve capital instruments above the line.

Expenses in the division have increased to £128 million (2001: £125 million) primarily due to amortisation of goodwill relating to the acquisition of Scottish Provident. This was offset in part by the non-recurrence of corporate advisory fees in 2001.

Ratings

On 12 June 2002, Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., lowered its ratings on the long-term senior debt of Abbey National plc from "AA" to "AA-" and on the Preference Shares from "A+" to "A".

Recent Developments

On 10 June 2002, the Abbey National Group released its 2002 Interim Pre-close Statement, a summary of which is set out below.

Profit before tax for the year is now expected to be substantially lower than current market expectations and last year. In particular, first half results are expected to show profits significantly below the second half of 2001.

The weaker result will be driven primarily by additional provisioning and write-offs in the wholesale bank. This follows a decision to take a more conservative and anticipatory approach to provisioning in 2002. Provisions and write-offs are expected to reduce substantially to more normal levels in 2003. Lower sales of with-profit bonds

than originally expected also contribute to the weaker outlook, partly reflecting lack of investor confidence in the equity markets.

The Group's businesses are otherwise operating largely as expected. A materially improved performance is expected in the second half of the year, primarily due to lower provisioning and write-offs in the wholesale bank, as well as a range of operating improvements. The Group remains committed to its progressive dividend policy. However, the rate of dividend growth in 2002 is expected to be lower than last year, reflecting a cautious view on the current trading conditions.

CAPITALISATION AND INDEBTEDNESS OF THE ABBEY NATIONAL GROUP

The following table sets out the authorised and issued share capital of the Issuer and the Abbey National Group shareholders' funds and indebtedness as at 31 December 2001 and as at 31 May 2002⁽¹⁾⁽²⁾:

	As at 31 December 2001 (audited)	As at 31 May 2002 (unaudited)
	<i>(£ millions)</i>	
Issuer		
Authorised share capital:		
Sterling Ordinary shares of 10p each	175	175
Sterling Preference shares of £1 each	1,000	1,000
Euro Preference shares of €0.01	7	7
U.S.\$ Preference shares of U.S.\$0.01	7	7
	1,189	1,189
Issued and fully paid comprising ordinary shares of 10p each	142	145
Issued and fully paid comprising sterling preference shares of £1 each	325	325
Abbey National Group Shareholders' Funds Equity		
Issued and fully paid share capital	145	145
Share premium	1,623	1,709
Reserves	772	772*
Profit and loss account	4,463	4,463*
Non-Equity		
Issued and fully paid preference share capital	325	325
Trust Preferred Securities eligible as Tier 1 Capital ⁽³⁾	689	667
Share premium ⁽³⁾	423	424
Total Shareholders' Funds	8,440	8,505
Abbey National Group Indebtedness⁽³⁾ Subordinated Bonds/Notes^{(2) (4)}		
Due within one year	166	175
Due after more than one year and less than five years	1,572	1,514
Due after five years	4,950	4,930
Exchangeable capital securities ⁽⁵⁾	200	200
	6,888	6,819
Medium-Term Note Programme⁽⁶⁾		
Due within one year	1,824	2,205
Due after more than one year and less than five years	3,648	3,859
Due after five years	1,281	1,327
	6,753	7,391
Other Loan Capital⁽⁶⁾		
Floating/Variable Rate Bonds/Notes		
Due within one year	1,329	7
Due after more than one year and less than five years	186	195
Due after five years	161	168
	1,676	370

* As at 31 December 2001

	As at 31 December 2001 (audited)	As at 31 May 2002 (unaudited)
	(<i>£ millions</i>)	
Fixed Rate Bonds/Notes⁽⁶⁾		
Due within one year	2,273	5,653
Due after more than one year and less than five years	8,798	4,805
Due after five years	1,391	1,255
	12,462	11,713
Total Indebtedness⁽⁷⁾	27,779	26,293
Total Capitalisation and Indebtedness⁽¹⁾	36,219	34,798

Notes:

- (1) The total capitalisation and indebtedness of the Group has decreased by £720 million between 31 May 2002 and 9 August 2002 as a result of issues and repayments of loan capital amounting to £666 million and £631 million, respectively, and a £756 million decrease due to foreign exchange movements and will increase by approximately £175 million as a result of this issue.
- (2) As at 9 August 2002 no undertaking within the Group either individually or collectively had any contingent liabilities or guarantees outside of the Group, which were material in the context of the Issuer or the Group.
- (3) The preference share premium and subordinated bonds/notes are stated after the deduction of issue costs of £17 million and £44 million, respectively, and the trust preferred securities are stated after the deduction of issue costs of £7 million.
- (4) All of the bonds and notes are unsecured indebtedness of the Group guaranteed by Abbey National plc, apart from £5,406 million at 31 December 2001 and £6,066 million at 31 May 2002 which is unsecured indebtedness of Abbey National plc which is not guaranteed by any entity outside the Group.
- (5) 200 million 101/16% Exchangeable Capital Securities, exchangeable into 200 million 103/8% Non-Cumulative Sterling Preference Shares of £1 each of Abbey National plc on any Exchange Date at the option of Abbey National plc.
- (6) Liabilities in foreign currencies are translated into sterling at market exchange rates prevailing at 31 December 2001 and 31 May 2002, as appropriate.
- (7) Holmes Funding No.1 PLC, Holmes Funding No.2 PLC and ILSE No.1 PLC are quasi subsidiaries of the Group, pursuant to FRS5, Reporting the Substance of Transactions, and have issued £13,168 million of medium term notes. This amount has not been included in the indebtedness of the Group on the basis that the Group is under no obligation to support any loss that may be incurred by the companies.
- (8) Save for the information disclosed above, there has been no material change in the authorised and issued share capital of the Issuer and no material change in the indebtedness of the Issuer or the Group since 31 May 2002.

SUMMARY FINANCIAL INFORMATION

The following tables provide summary audited financial information for Abbey National plc. Such information has been derived without material adjustment from the audited financial statements of the Abbey National Group for the year ended 31 December 2001.

Consolidated Profit and Loss Accounts

	For the years ended	
	31 December	
	2001	2000
	<i>(£ millions)</i>	
Net interest income	2,711	2,680
Fees, commissions and other income	1,843	1,614
Operating expenses excluding operating lease assets depreciation	(1,850)	(1,815)
Depreciation of operating lease assets	(256)	(178)
Provisions for bad and doubtful debts	(263)	(273)
Provisions for contingent liabilities and commitments	9	(21)
Amounts written off fixed asset investments	(256)	(32)
Operating profit and profit on ordinary activities before tax	1,938	1,975
Tax on profit on ordinary activities	(603)	(559)
Profit on ordinary activities after tax	1,335	1,416
Minority interests — non-equity	(59)	(51)
Profit for the financial year attributable to the shareholders of		
Abbey National plc	1,276	1,365
Transfer to non-distributable reserve	(167)	(156)
Dividends including amounts attributable to non-equity interests	(762)	(687)
Other non-equity interest appropriations	(19)	—
Retained profit for the year	328	522

Consolidated Balance Sheets

	As at 31 December	
	2001	2000
	(£ millions)	
Assets		
Cash, treasury bills and other eligible bills	2,983	1,596
Loans and advances to banks	9,874	12,168
Loans and advances to customers	78,650	81,752
Loans and advances subject to securitisation	18,883	7,927
Non-returnable finance	(12,952)	(4,629)
Loans and advances to customers after non-returnable finance	84,581	85,050
Net investment in finance leases	4,738	5,192
Securities and investments	68,673	69,573
Long term assurance business	2,015	1,538
Intangible fixed assets	1,243	245
Tangible fixed assets excluding operating lease assets	356	389
Operating lease assets	2,522	1,963
Tangible fixed assets	2,878	2,352
Other assets	7,363	7,594
Assets of long term assurance funds	30,558	19,083
Total assets	214,906	204,391
Liabilities		
Deposits by banks	24,945	34,996
Customer accounts	74,259	66,795
Debt securities in issue	54,413	57,078
Other liabilities	15,409	13,074
Subordinated liabilities including convertible debt	6,590	5,871
Liabilities of long term assurance funds	30,558	19,083
	206,174	196,897
Minority interests — non-equity	681	664
Non-equity shareholders' funds	1,045	450
Equity shareholders' funds	7,006	6,380
Total Liabilities	214,906	204,391

UNITED KINGDOM TAXATION

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

Withholding tax

1. All payments of interest on the TOPICS may be paid without withholding or deduction for or on account of United Kingdom income tax provided that, at the time of the payment, the TOPICS are listed on a Recognised Stock Exchange. The Luxembourg Stock Exchange is so recognised.

If the TOPICS cease to be listed on a Recognised Stock Exchange, interest on the TOPICS will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any relief available under any applicable double tax treaty.

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

2. The interest on the TOPICS will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom income tax by direct assessment. Where the interest is paid without deduction or withholding the interest will not be assessed to United Kingdom tax in the hands of a TOPICS Holder who is not resident for tax purposes in the United Kingdom, unless the TOPICS Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the TOPICS are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
3. If interest on the TOPICS were to be paid under deduction of United Kingdom income tax, TOPICS Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an applicable double taxation treaty.
4. The provisions relating to additional payments referred to in Condition 11 of “Terms and Conditions of the TOPICS” above would not apply if the Inland Revenue were to assess the person entitled to the relevant interest directly to United Kingdom income tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Holders within the Charge to United Kingdom Corporation Tax

5. The TOPICS will generally constitute “qualifying corporate bonds” for TOPICS Holders within the charge to United Kingdom corporation tax on chargeable gains. Accordingly, such TOPICS Holders will generally recognise any gain or loss for corporation tax purposes under the “loan relationship” rules in the Finance Act 1996. Under these rules, all profits and gains will be chargeable to tax as income and any deficits from any such TOPICS Holder’s loan relationships will be relieved in accordance with such TOPICS Holder’s authorised accounting method.

Individual holders within the charge to United Kingdom income tax or capital gains tax

6. Individual TOPICS Holders who are within the charge to United Kingdom income tax on the interest payable on the TOPICS will generally be liable to tax on this interest when it is paid to them.
7. It is expected that the TOPICS will be treated as “qualifying corporate bonds” for the purposes of capital gains tax. On that basis, a disposal or redemption of TOPICS by individuals who are within the charge to United Kingdom capital gains tax should not give rise to a chargeable gain or in allowable loss for United Kingdom capital gains tax purposes.

A transfer of TOPICS by an individual TOPICS Holder who is resident or ordinarily resident 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 TOPICS are attributable may give rise to a charge to United Kingdom income tax in respect of an amount representing interest on the TOPICS which has accrued since the preceding interest payment date under the provisions of the “accrued income scheme”. The TOPICS will be treated as

“variable rate securities” for such purposes, with the result that any such charge to income tax will apply to such amount as the United Kingdom Inland Revenue deem just and reasonable and a transferee of TOPICS will not be entitled to any corresponding allowance in respect of accrued interest under the accrued income scheme.

Proposed EU Directive on the taxation of savings income

8. The Council of the European Union has published a draft Directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The proposed Directive is not yet final, and may be subject to further amendments.

SUBSCRIPTION AND SALE

Under a subscription agreement entered into with the Issuer on 9 August 2002 (the “Subscription Agreement”), Lehman Brothers International (Europe) and UBS AG, acting through its business group UBS Warburg (the “Managers”) have agreed to subscribe for the TOPICS at the issue price of 100 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission of 1 per cent. of the principal amount of the TOPICS. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Issuer.

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

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

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

Each of the Managers has represented and agreed that:

- (1) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the TOPICS, will not offer or sell any TOPICS to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (2) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the TOPICS in, from or otherwise involving the United Kingdom; and
- (3) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any TOPICS in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer.

No action has been or will be taken in any country or any jurisdiction by the Managers or the Issuer that would permit a public offering of the TOPICS, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the TOPICS, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed to comply with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers TOPICS or has in its possession or distributes the Offering Circular or any such other material relating to the TOPICS, in all cases at its own expense. Each Manager has also undertaken to ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions. The Issuer will have no responsibility for, and each Manager has agreed to obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of TOPICS under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Manager has been authorised to make any representation or use any information in connection with the issue, subscription and sale of the TOPICS other than as contained or incorporated by reference in this Offering Circular or any amendment or supplement to it.

GENERAL INFORMATION

- (1) In connection with the application to list the TOPICS on the Luxembourg Stock Exchange a legal notice relating to the issue of the TOPICS and copies of the Memorandum and Articles of Association of the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et a Luxembourg*") where such documents may be examined and copies obtained.
- (2) The TOPICS have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 15283858. The ISIN for the TOPICS is XS0152838586.
- (3) The issue of the TOPICS was authorised pursuant to a resolution of the Board of Directors of the Issuer (the "Board") passed on 23 July 2002 and a resolution of a committee of the Board passed on 8 August 2002.
- (4) All TOPICS and Coupons will carry a legend to the following effect "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of a TOPICS or Coupon.
- (5) Save as disclosed in this Offering Circular below, no member of the Group is or has been involved in any legal or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the TOPICS nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (6) In 1996, Abbey National Treasury Services plc ("ANTS") received a demand from an overseas tax authority in an amount of approximately £100 million relating to the repayments of certain tax credits received and related charges. ANTS has been advised that it has strong grounds to challenge the validity of the demand. As at 31 December 2001, additional interest in relation to the demand could amount to approximately £22 million.
- (7) The Financial Ombudsman Service (the "FOS") has recently considered complaints against the practice of "dual pricing" adopted by certain mortgage providers which involves offering a lower standard variable rate to certain borrowers while maintaining a higher standard variable rate for certain existing borrowers. An adverse decision of the Ombudsman against a mortgage provider in relation to such practice may, among other things, mean that the relevant borrower is not liable to pay the higher rate and may result in the mortgage provider having to repay any overpaid sum. An adjudicator within the FOS has made one adverse finding against the Issuer and the Issuer has appealed, the outcome of which is awaited. Complaints made by other borrowers against the Group alleging dual pricing are on hold pending the resolution of the case on appeal.
- (8) Save as disclosed in this Offering Circular, there has been no material adverse change in the financial position of the Issuer or the Group since 31 December 2001.
- (9) No redemption or purchase by the Issuer or any of its subsidiaries for cancellation of the TOPICS will be made by the Issuer without the prior consent of the Financial Services Authority.
- (10) Copies of the latest annual report, consolidated and non-consolidated accounts of the Issuer and the latest Interim Financial Results Announcement of the Issuer may be obtained, and copies of the Trust Deed, Agency Agreement and Calculation Agency Agreement will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, so long as any of the TOPICS is outstanding. Consolidated interim accounts are currently produced on a semi-annual basis. The Issuer does not publish non-consolidated interim profit and loss accounts.
- (11) The consolidated accounts of the Issuer for the year ended 31 December 2000 and 2001 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by Deloitte & Touche Chartered Accountants and Registered Auditors of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. The financial information included on pages 39 and 40 of this document does not constitute statutory accounts of the Issuer within the meaning of section 240 of the Companies Act 1985 (the "Companies Act"). Statutory consolidated accounts relating to each financial year to which such financial information relates have been delivered to the Register of Companies in England and Wales. The Issuer's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.

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The **Abbey National**
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