



**Abbey National plc**

*(Incorporated in England with limited liability, registered number 2294747)*



**€500,000,000**

**4.625% SUBORDINATED NOTES DUE 2011**

**ISSUE PRICE: 99.772%**

Interest on the €500,000,000 4.625% Subordinated Notes due 2011 (the "Notes") of Abbey National plc (the "Issuer") is payable at the rate of 4.625% per annum annually in arrear on 11th February in each year, the first such payment to be made on 11th February, 2000. Payments in respect of the Notes will be made without deduction for or on account of taxes of the United Kingdom as described under "Terms and Conditions of the Notes — Taxation".

The Notes are redeemable in whole (but not in part), at the option of the Issuer, in the event of certain changes affecting taxes of the United Kingdom, at their principal amount together with accrued interest, as described under paragraph (b) of "Terms and Conditions of the Notes — Redemption and Purchase". Unless previously redeemed or purchased and cancelled the Notes will be redeemed on 11th February, 2011 at their principal amount.

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

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be admitted to the Official List. Application has also been made to list the Notes on the Luxembourg Stock Exchange. Copies of this Offering Circular, which comprises listing particulars which have been approved by the London Stock Exchange, have been delivered to the Registrar of Companies in England and Wales as required by Section 149 of the Financial Services Act 1986.

The Notes will initially be represented by a Temporary Global Note without interest coupons ("Coupons"), which will be deposited with a Common Depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedelbank on or about 11th February, 1999 (the "Closing Date"). The Temporary Global Note will be exchangeable for definitive Notes in bearer form, with Coupons attached, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. See "Terms and Conditions of the Notes — Form, Denomination and Transfer".

**LEHMAN BROTHERS**

**BARCLAYS CAPITAL**

**PARIBAS**

**WARBURG DILLON READ**

**BANCO BILBAO VIZCAYA, S.A.**

**BANCO ESPIRITO SANTO DE INVESTIMENTO**

**CRÉDIT COMMERCIAL DE FRANCE**

**SOCIÉTÉ GENERALE**

**UNICREDITO ITALIANO**

This Offering Circular comprises listing particulars given in compliance with the listing rules made by the London Stock Exchange under Section 142 of the Financial Services Act 1986. The Issuer accepts responsibility for all the information contained in this Offering Circular. To the best of the Issuer's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

In this Offering Circular, references to "Abbey National" and the "Issuer" are to Abbey National plc, and references to the "Group" are to Abbey National plc and its subsidiaries.

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

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

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

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union (such first-mentioned treaty as so amended, the "Treaty") and all references to "pounds", "sterling" and "£" are to the currency of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom").

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

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## INCORPORATION BY REFERENCE

The financial statements contained in the Annual Report of the Group for the years ended 31st December, 1996 and 1997 and the interim results of the Group for the six months ended 30th June, 1998 are incorporated herein by reference (provided, however, that such incorporated documents do not form a part of the Listing Particulars for the purposes of the rules of the London Stock Exchange). Copies of such Reports and results will be available without charge at the specified office of the Paying Agent in Luxembourg.

## TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration, are the Terms and Conditions of the Notes in the form in which they will be endorsed on the Notes in definitive form.

The €500,000,000 4.625% Subordinated Notes due 2011 (the "Notes", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes) are constituted by a trust deed (the "Trust Deed") dated 11th February, 1999 between Abbey National plc (the "Issuer") and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Notes (the "Noteholders"). The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 15th December, 1998 and by an approval and authorisation passed on 5th February, 1999. 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 and the paying agency agreement (the "Paying Agency Agreement") dated 11th February, 1999 made between the Issuer, The Chase Manhattan Bank, London office, as principal paying agent (the "Principal Paying Agent"), the other paying agent named therein (together with the Principal Paying Agent, the "Paying Agents") and the Trustee are available for inspection during normal business hours by the Noteholders and the holders (the "Couponholders") of the interest coupons appertaining to the Notes (the "Coupons") at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of each of the Paying Agents. The Noteholders 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 and the Paying Agency Agreement applicable to them.

### 1. Form, Denomination and Transfer

(a) The Notes are in bearer form, serially numbered, in the denominations of €1,000, €10,000 and €100,000, each with Coupons attached on issue and title thereto and to the Coupons passes by delivery. Notes of one denomination may not be exchanged for Notes of another denomination.

(b) The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note and the bearer of any Coupon as the absolute owner for all purposes (whether or not such Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. Status and Subordination

#### (a) Status

The Notes and the Coupons constitute direct, unsecured, subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and the rights and claims of the Noteholders and Couponholders will, in the event of the winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors. "Senior Creditors" means all unsubordinated creditors of the Issuer and all subordinated creditors of the Issuer whose claims against the Issuer rank or are expressed to rank ahead of the claims of the Noteholders and the Couponholders.

#### (b) Set-off

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

### 3. Interest

#### (a) Rate of Interest

The Notes bear interest at the rate of 4.625% per annum and such interest will be payable in arrear on 11th February in each year (each an "Interest Payment Date"), the first payment (representing a full year's interest) to be made on 11th February, 2000. Where interest is required to be calculated in respect of a period ending other than on an Interest Payment Date, it shall be calculated on the basis of the number of days in the

period from (and including) the most recent Interest Payment Date (or, if none, 11th February, 1999) to (but excluding) the relevant payment date divided by the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, 11th February, 1999) to (but excluding) the next scheduled Interest Payment Date.

(b) *Interest Payments*

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

#### **4. Redemption and Purchase**

(a) *Maturity*

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes on 11th February, 2011 at their principal amount.

(b) *Redemption for taxation purposes*

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next due date for the payment of interest as a result of any actual change in, or amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in the application of official or generally accepted interpretation of such laws, which change or amendment becomes effective on or after 9th February, 1999, the Issuer would, for reasons outside its control, be required to pay additional amounts as provided in Condition 7 and such requirement cannot be avoided by the Issuer taking such steps as the Trustee may consider reasonable or the Issuer would for reasons outside its control with respect to all but not some only of the Notes be required to account to any taxing authority in the United Kingdom for any amounts (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to any amount payable in respect of the Notes and that requirement cannot be avoided by the Issuer taking such steps as the Trustee may consider reasonable, then the Issuer may (subject to the prior consent of the Financial Services Authority), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable) at any time redeem all, but not some only of, the Notes at their principal amount together with interest accrued to the date fixed for redemption. Upon expiry of such notice the Issuer shall be bound to redeem the Notes accordingly on the date fixed for redemption.

(c) *Purchases*

The Issuer or any of its subsidiaries for the time being ("Subsidiaries") may (subject to the prior consent of the Financial Services Authority) at any time purchase Notes in any manner and at any price. In each case purchases will be made together with all unmatured Coupons (if any) appertaining thereto. If purchases are made by tender, tenders must be made available to all Noteholders alike.

(d) *Cancellation*

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

#### **5. Payments**

(a) Payments of principal and interest in respect of the Notes will be made against presentation and surrender (or, in the case of part payment only, endorsement) of Notes or, in the case of payments of interest against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons, at the specified office of any of the Paying Agents. Such payments will be made, at the option of the holder by a euro cheque or by transfer to a euro bank account specified by the holder, subject in all cases to any fiscal or other laws and regulations applicable in the place of payment but without prejudice to the provisions of Condition 7.

(b) Each Note should be presented for payment together with all unmatured Coupons appertaining thereto. If any Note is presented for payment without all unmatured Coupons appertaining thereto, the full

amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount in euros of such missing unmatured Coupon which the sum of principal so paid bears to the total amount of principal due) will be deducted from the principal amount due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time thereafter but before the expiry of a period of 10 years from the Relevant Date (as defined in Condition 7) for the payment of such principal (whether or not such Coupon would otherwise have become void pursuant to Condition 8) or, if later, five years from the date for payment stated on such Coupon, but not thereafter.

(c) If the date for payment of any amount of principal or interest in respect of any Note or any later date on which any Note or Coupon is presented for payment is not at the relevant place of presentation and at the place where the holder's euro account is located (in the latter case, where payment is to be made by transfer to a euro account specified by the holder) a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph (c), "business day" means any day (not being a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in euro and on which the TARGET System is operating. In these Conditions, "TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

(d) The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain a Paying Agent having a specified office in London and (so long as the Notes are listed in Luxembourg and the rules of that exchange so require) a Paying Agent having a specified office in Luxembourg.

(e) Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

## **6. Events of Default and Enforcement**

(a) If the Issuer shall not make any payment in respect of the Notes for a period of 14 days or more after the due date for the same, the Issuer shall be considered to be in default under the Trust Deed, the Notes and the Coupons and the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 6, institute proceedings in England (but not elsewhere) for the winding-up of the Issuer.

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

(c) If, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for the winding up of the Issuer, the Trustee may at its discretion give notice to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed.

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

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

(f) No remedy against the Issuer, other than as referred to in this Condition 6, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

## **7. Taxation**

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

- (i) by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (ii) by or on behalf of a holder who would be able to avoid such withholding or deduction by satisfying any statutory requirements (provided such statutory requirements do not involve the holder in incurring a material cost) and/or by making a declaration of non-residence or other similar claim for exemption but, in either case, fails to do so; or
- (iii) in the United Kingdom; or
- (iv) 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.

For this purpose, the "Relevant Date" in respect of any payment means 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 Noteholders by the Issuer in accordance with Condition 12.

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

## **8. Prescription**

Save as provided in Condition 5(b), Notes and Coupons will become void unless presented for payment within a period of 10 years in the case of Notes and five years in the case of Coupons from the Relevant Date (as defined in Condition 7) relating thereto.

## **9. Meetings of Noteholders, Modification, Waiver and Substitution**

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

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions (including, *inter alia*, the provisions regarding

subordination referred to in Condition 2, the terms concerning currency and due date for payment of principal or interest in respect of the Notes and principal amount of any Note) and certain provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

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

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

Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders or Couponholders, may agree with the Issuer, without the consent of the Noteholders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 2 of any person or persons incorporated in any country in the world (other than the United States) (the "Substitute Obligor") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed, the Notes and the Coupons. In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Noteholders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

## **10. Replacement of the Notes and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 12) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before any replacement Notes or Coupons will be issued.

## **11. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any other Subsidiary without accounting for any profit resulting therefrom.

## **12. Notices**

All notices regarding the Notes will be valid if published in one leading London daily newspaper or, if this is not practicable in the opinion of the Trustee, in one other leading English language daily newspaper which is approved by the Trustee with circulation in Europe and, if and for so long as the Notes are listed on the Luxembourg Stock Exchange, in one daily newspaper published in Luxembourg approved by the Trustee. Any notice published in a newspaper as aforesaid shall be deemed to have been given on the date of publication or,



if published more than once, on the date of the first such publication. If publication is not practicable in any such newspaper as aforesaid, notice will be valid if given in such other manner, and shall be deemed to have been given on such date, as the Trustee shall approve. It is expected that publication of notices will normally be made in the *Financial Times* and, if and for so long as the Notes are listed on the Luxembourg Stock Exchange, the *Luxemburger Wort*.

### **13. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or, if applicable, the Couponholders to create and issue further notes either so as to be consolidated and form a single series with the Notes or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may, in its absolute discretion, at the time of the issue thereof determine. Any such further notes, if they are to be consolidated and form a single series with the Notes, shall be constituted by a deed supplemental to the Trust Deed. Any other further notes shall be constituted by a separate trust deed.

### **14. Governing Law**

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

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, expected to amount to approximately €496,610,000, will be used to strengthen the Group's capital base.

## THE ABBEY NATIONAL GROUP

Abbey National plc was incorporated in England and Wales on 12th September, 1988 with registered number 2294747 and is the successor company to which the Abbey National Building Society transferred its business in July 1989. Abbey National is the parent company of the Group.

### Introduction

The Group was the fifth largest banking group in the United Kingdom in terms of assets at 31st December, 1997 with total assets of £150.8 billion (1996: £124.0 billion). During 1997 the Group made pre-tax profits of £1,424 million (1996: £1,228 million before integration costs). This excludes exceptional charges against income from leasing and life assurance operations, arising from significant changes to the U.K. corporation tax regime announced by the U.K. Government in 1997. The leasing charge of £133 million is compensated in full by a reduction in the tax charge.

### The Business of the Group

Abbey National and its subsidiaries comprise a major personal financial services group in the United Kingdom, providing a wide range of financial products and services. The Group operates principally in the following business segments:

#### U.K. Retail Banking

U.K. Retail Banking is the largest business of the Group and the major areas of activity are:

##### *Mortgage Lending*

The Group provides an extensive mortgage service and, at 31st December, 1997, had total U.K. residential mortgage assets of £60.8 billion (1996: £60.0 billion) net of suspended interest and provisions. During 1997 the Group's market share of the increase in U.K. mortgages outstanding was an estimated 3.5% (1996: 2.4%). As at 31st December, 1997, the Group's market share of the total U.K. mortgage stock was an estimated 14.1% compared to 14.7% as at 31st December, 1996.

##### *Savings*

The Group provides a range of savings accounts to meet the varied requirements of its customers and, at 31st December, 1997, U.K. retail savings of customers with the Group amounted to £48.2 billion (1996: £45.9 billion). As at 31st December, 1997, the Group's market share of the total U.K. liquid savings stock was an estimated 9.2% compared to 9.3% at 31st December, 1996.

##### *Bank Accounts*

During 1997, over 127,000 new bank accounts were opened (1996: 113,000) bringing the total number of accounts to 1.68 million.

#### Treasury & Wholesale Banking

The activities of Treasury & Wholesale Banking are conducted primarily through Abbey National Treasury Services plc ("ANTS"). The assets of Treasury & Wholesale Banking grew by 10% during 1997 to £52.4 billion (1996: £47.8 billion). In addition, £18.1 billion was added at the year end as a result of the acquisition of Cater Allen Holdings PLC ("Cater Allen"). A change to a mix of investment and trading assets provided greater flexibility in capital management and the acquisition of Cater Allen has given Abbey National the opportunity to expand its offshore and wholesale money market activities. ANTS and Abbey National Treasury International Limited each have a representative office in Hong Kong.

#### Life Assurance Operations

The Group is active in each of the three principal areas of the U.K. Life assurance industry: life and ill-health protection assurance, pensions and investments and savings. Scottish Mutual Assurance plc offers a broad range of products through independent financial advisers, while Abbey National Life plc offers products through the Group's distribution network. Scottish Mutual Assurance plc's new business premium income arising from policies sold in 1997 increased by 28% to £1,212 million (1996: £949 million). Abbey National Life plc's new business premiums from policies sold in 1997 totalled £727 million (1996: £671 million), 8% higher than in 1996.

## **Finance House**

Finance House provides unsecured personal loans under the Abbey National and First National brands. It also provides secured loans, motor finance and vehicle contract hire, leasing, factoring and commercial mortgages. In 1997, First National Bank's gross lending increased by 62% to £1.1 billion and gross lending of Abbey National branded unsecured personal loans increased by 17% to £0.9 billion.

## **General Insurance**

General Insurance is a new business segment reflecting the results of the Group's general insurance business, previously classified with U.K. Retail Banking. The range of general insurance products offered includes property, buildings and contents, payment protection and travel insurance.

## **Wealth Management**

In 1998 the offshore retail operations of Treasury & Wholesale Banking transferred to a new Wealth Management division. The Wealth Management division comprises these businesses and certain on-shore operations targeted at high net worth individuals.

## **Continental Europe**

The Group has operations in France and Italy, the main activity of which is the provision of residential mortgage loans. On 22nd April, 1998 the terms of an agreement for the sale of the entire operation in Spain were agreed with Caja de Ahorros del Mediterraneo. The sale was declared unconditional on 25th May, 1998.

## **Interim Results for the six months to 30th June, 1998**

Profits before tax and exceptional items of the Group for the six months to 30th June, 1998 rose 15% to £787 million compared with £687 million for the six months to 30th June, 1997. Total charges for bad debts rose to £79 million from £70 million in the first half of 1997.

Total Group assets increased by 8% since 31st December, 1997 to £162.7 billion (31st December, 1997: £150.8 billion).

Pre-tax profits for U.K. Retail Banking increased by 23% to £436 million (30th June, 1997: £355 million) reflecting a strengthening of the retail brand. Treasury & Wholesale Banking contributed pre-tax profits of £183 million for the six months to 30th June, 1998 (30th June, 1997: £139 million). This increase reflects continued growth in investment assets and the contribution of Cater Allen profits since acquisition in July 1997.

Life Assurance increased profit before tax by 11% to £91 million (30th June, 1997: £82 million) as a result of growth in business volumes in a strong market.

Finance House profit before tax fell by 8% to £60 million (30th June, 1997: £65 million), reflecting the cost of infrastructure investment, margin pressures in unsecured lending and increased provisions.

General Insurance profit before tax fell by 6% to £44 million (30th June, 1997: £47 million) largely as a result of Abbey National now bearing the full operating expenses of the business.

The new Wealth Management division more than tripled operating profit to £13 million reflecting the benefit of the Cater Allen acquisition. The focus in the first half of 1998 was on the integration of the offshore operations.

Continental Europe's pre-tax profit was £1 million (30th June, 1997: loss £10 million), in part due to the profit on the disposal of the Spanish operation.

## **Recent Developments**

On 30th December, 1998, the NatWest Group ("NatWest") sold to the Group three point of sale finance businesses. The consideration consisted of a cash payment (inclusive of premium) of £347 million, based on the estimated net asset value of these businesses as at the date of completion.

The businesses included in the transaction are Lombard Motor Finance, Lombard Tricity Finance Limited and Lombard Business Equipment Leasing Limited (now known as First National Motor Finance, First National

Tricity Finance Limited and LBEL Limited, respectively), together representing total assets of £4.3 billion as at 30th September, 1998. The acquisition of these businesses will enable First National Bank to add further strength and depth to its own strongly growing point of sale finance operations.

**Ratings**

The Issuer's outstanding long-term senior debt is rated Aa2 by Moody's Investors Service and AA by Standard & Poor's Ratings Services and Fitch IBCA. It is expected that the Notes will be rated Aa3 by Moody's Investors Service and AA- by Standard & Poor's Ratings Services and Fitch IBCA.

The following are the members of the Board of Directors of Abbey National:

| <b>Position</b>         | <b>Name</b>  | <b>Principal external activities</b>   |
|-------------------------|--|--|
| Chairman                | The Lord Tugendhat   | Director, Eurotunnel plc<br>Chairman, Blue Circle Industries PLC<br>Director, Rio Tinto PLC                    |
| Deputy Chairmen         | Martin Llowarch, FCA   | Chairman, Transport Development Group plc<br>Chairman, Firth Rixson plc<br>Director, Hickson International plc |
|                         | The Lord Shuttleworth,<br>JP FRICS   |  |
| Chief Executive         | Ian Harley, FCA  |  |
| Deputy Chief Executive  | Charles Toner  |  |
| Executive Directors     | Tim Ingram, MBA FCIB<br>Gareth Jones, FCA FCT<br>Malcolm Millington<br>Mark Pain, FCA<br>Andrew Pople, MBA<br>Ian Treacy, FCA<br>Charles Villiers, FCA | Director, Marley plc<br><br><br><br><br><br>Director, Debenham, Tewson and Chinnocks Holdings PLC              |
| Non-executive Directors | Leon Allen   | Chairman & Chief Executive, The Tetley Group Limited   |
|                         | Mair Barnes  | Director, George Wimpey PLC<br>Director, Scottish Power Plc  |
|                         | Sir Terence Heiser, GCB  | Director, J Sainsbury plc<br>Director, Wessex Water plc<br>Director, Personal Investment Authority             |
|                         | Peter Ogden  | Director, Anglo & Overseas Trust PLC<br>Director, Computacenter PLC<br>Director, Omnia Limited                 |
|                         | The Lord Rockley   | Director, The Foreign and Colonial Investment Trust PLC<br>Director, Cobham plc<br>Chief Executive, MEPC plc   |
|                         | James Tuckey, FRICS<br>Keith Woodley, FCA  |  |

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

## CAPITALISATION OF THE GROUP

The following table sets out the authorised and issued share capital of the Issuer and the capitalisation of the Group at 31st December, 1997 and at 30th November, 1998<sup>(6)</sup>:

|   | As at 31st<br>December,<br>1997<br>(Audited) | As at 30th<br>November,<br>1998<br>(Unaudited) |
|---|--|--|
|   | (in £ million)                               |  |
| <b>Issuer</b>   |  |  |
| Authorised share capital comprising:                  |  |  |
| Ordinary shares of 10p each                           | 175  | 175  |
| Sterling preference shares of £1 each                 | 1,000  | 1,000  |
| U.S. dollar preference shares of \$0.01 each          | 6  | 6  |
| Issued and fully paid comprising:                     |  |  |
| Ordinary shares of 10p each                           | 141  | 142  |
| Sterling preference shares of £1 each                 | 325  | 325  |
| <b>Group</b>  |  |  |
| Equity Shareholders' Funds                            |  |  |
| Issued and fully paid ordinary share capital          | 141  | 142  |
| Share premium   | 1,335  | 1,374 <sup>(1)</sup>                           |
| Reserves  | 308  | 308 <sup>(1)</sup>                             |
| Profit and loss account                               | 2,644  | 2,981 <sup>(1)</sup>                           |
| Non-Equity Shareholders' Funds                        |  |  |
| Issued and fully paid preference share capital        | 325  | 325  |
| Share premium   | 131  | 133  |
|   | 4,884  | 5,263  |
| Subordinated Bonds/Notes <sup>(2)(3)</sup>            |  |  |
| Due within one year                                   | —  | 132  |
| Due after more than one year and less than five years | 376  | 308  |
| Due after five years                                  | 1,893  | 2,135  |
| Exchangeable capital securities <sup>(4)</sup>        | 200  | 200  |
|   | 2,469  | 2,775  |
| Medium-Term Note Programme <sup>(2)(3)</sup>          |  |  |
| Due within one year                                   | 5,118  | 8,108  |
| Due after more than one year and less than five years | 3,540  | 3,348  |
| Due after five years                                  | 742  | 655  |
|   | 9,400  | 12,111   |
| Other Loan Capital <sup>(2)(3)</sup>                  |  |  |
| <i>Floating/Variable Rate Bonds/Notes</i>             |  |  |
| Due within one year                                   | 63   | 61   |
| Due after more than one year and less than five years | 66   | —  |
| Due after five years                                  | —  | —  |
|   | 129  | 61   |
| <i>Fixed Rate Bonds/Notes</i>                         |  |  |
| Due within one year                                   | 1,939  | 3,398  |
| Due after more than one year and less than five years | 6,352  | 8,482  |
| Due after five years                                  | 3,666  | 2,856  |
|   | 11,957                                       | 14,736   |
| Total Capitalisation <sup>(5)</sup>                   | 28,839                                       | 34,946   |

*Notes:*

(1) As at 30th June, 1998.

(2) All of the bonds and notes are guaranteed by Abbey National, with the exception of certain unsecured indebtedness of Abbey National which amounted to £1,279 million and £1,789 million at 31st December, 1997 and 30th November, 1998, respectively, and certain secured indebtedness of Abbey National which amounted to £116 million and £48 million at 31st December, 1997 and 30th November, 1998, respectively.

(3) Liabilities in foreign currencies are translated into sterling at market exchange rates prevailing at 31st December, 1997 or 30th November, 1998, as appropriate.

(4) £200 million 10% Exchangeable Capital Securities, exchangeable into 200 million 10% Non-Cumulative Sterling Preference Shares of £1 each of Abbey National on any Exchange Date (as provided therein) at the option of Abbey National.

(5) The total capitalisation of the Group has increased by £347 million between 30th November, 1998 and 9th February, 1999 as a result of issues and repayments of loan capital amounting to £3,471 million and £3,124 million, respectively, and will increase by approximately £352 million as a result of this issue.

(6) 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 capitalisation of the Group since 30th November, 1998.

# AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ABBEY NATIONAL PLC

For the years ended 31st December, 1997 and 1996

|  | 1997           | 1996         |
|--|----------------|--------------|
|  | (in £ million) |              |
| Interest receivable  |                |              |
| Interest receivable and similar income arising from debt securities  | 2,008          | 2,016        |
| Other interest receivable and similar income                         | 5,823          | 4,544        |
| Adjustment to net investment in finance leases                       | (133)          | —            |
| Interest payable   | (5,809)        | (4,766)      |
| <b>Net interest income</b>   | <b>1,889</b>   | <b>1,794</b> |
| Dividend income  | 3              | 3            |
| Fees and commissions receivable                                      | 547            | 398          |
| Fees and commissions payable   | (96)           | (62)         |
| Dealing profits  | 52             | 29           |
| Other operating income   |                |              |
| Income from long term assurance business                             | 147            | 133          |
| Adjustment to income from long term assurance business               | (12)           | —            |
| Other operating income   | 83             | 54           |
| <b>Total operating income</b>  | <b>2,613</b>   | <b>2,349</b> |
| Administrative expenses  |                |              |
| Integration costs in continuing businesses                           | —              | (61)         |
| Other administrative expenses  | (1,096)        | (884)        |
| Depreciation and amortisation  | (98)           | (93)         |
| Provisions   |                |              |
| Provisions for bad and doubtful debts                                | (121)          | (127)        |
| Provisions for contingent liabilities and commitments                | (16)           | (4)          |
| Amounts written off fixed asset investments                          | (3)            | (13)         |
| <b>Profit on ordinary activities before tax</b>                      | <b>1,279</b>   | <b>1,167</b> |
| Tax on profit on ordinary activities                                 | (326)          | (403)        |
| <b>Profit on ordinary activities after tax</b>                       | <b>953</b>     | <b>764</b>   |
| Minority interests – equity  | 1              | 3            |
| <b>Profit attributable to the shareholders of Abbey National plc</b> | <b>954</b>     | <b>767</b>   |
| Transfer to non-distributable reserve                                | (78)           | (67)         |
| Dividends including amounts attributable to non-equity interests     | (469)          | (373)        |
| <b>Profit retained for the financial year</b>                        | <b>407</b>     | <b>327</b>   |
| Profit on ordinary activities before tax includes:                   |                |              |
| for acquired operations (excluding integrated businesses)            | 7              | 8            |
| <b>Earnings per ordinary share</b>                                   | <b>65.2p</b>   | <b>56.5p</b> |

Notes:

The information presented on pages 16 to 17 of this Offering Circular has been extracted without material adjustment from the Directors' Report and Accounts of the Issuer for the years ended 31st December, 1997 and 31st December, 1996.



# AUDITED CONSOLIDATED BALANCE SHEET OF ABBEY NATIONAL PLC

As at 31st December, 1997 and 1996

|   | 1997           | 1996           |
|---|----------------|----------------|
|   | (in £ million) |                |
| <b>Assets</b>   |                |                |
| Cash and balances at central banks                    | 329            | 228            |
| Treasury bills and other eligible bills               | 1,628          | 111            |
| Loans and advances to banks                           | 8,993          | 2,825          |
| Loans and advances to customers                       | 72,834         | 64,227         |
| Net investment in finance leases                      | 4,655          | 4,310          |
| Debt securities                                       | 46,454         | 39,730         |
| Equity shares and other variable yield securities     | 83             | 44             |
| Long term assurance business                          | 649            | 555            |
| Interests in associated undertakings                  | 21             | 8              |
| Tangible fixed assets                                 | 698            | 689            |
| Operating lease assets                                | 67             | 26             |
| Other assets  | 2,273          | 1,509          |
| Prepayments and accrued income                        | 2,023          | 1,880          |
| Assets of long term assurance funds                   | 10,101         | 7,869          |
| <b>Total assets</b>                                   | <b>150,808</b> | <b>124,011</b> |
| <b>Liabilities</b>                                    |                |                |
| Deposit by banks                                      | 24,536         | 17,718         |
| Customer accounts                                     | 61,675         | 49,678         |
| Debt securities in issue                              | 40,201         | 35,193         |
| Dividend proposed                                     | 290            | 245            |
| Other liabilities                                     | 2,678          | 2,980          |
| Accruals and deferred income                          | 2,842          | 2,591          |
| Provisions for liabilities and charges                | 1,144          | 970            |
| Subordinated liabilities including convertible debt   | 2,463          | 2,374          |
| Liabilities of long term assurance funds              | 10,101         | 7,869          |
|   | <b>145,930</b> | <b>119,618</b> |
| Called up share capital – ordinary shares             | 141            | 141            |
| – preference shares                                   | 325            | 200            |
| Share premium account                                 | 1,460          | 1,441          |
| Reserves  | 308            | 230            |
| Profit and loss account                               | 2,644          | 2,381          |
| Shareholders' funds including non-equity interests    | 4,878          | 4,393          |
| <b>Total liabilities</b>                              | <b>150,808</b> | <b>124,011</b> |
| <b>Memorandum items</b>                               |                |                |
| Contingent liabilities                                |                |                |
| Guarantees, and assets pledged as collateral security | 1,915          | 2,570          |
| Other contingent liabilities                          | 779            | 138            |
|   | <b>2,694</b>   | <b>2,708</b>   |
| <b>Commitments</b>                                    | <b>2,164</b>   | <b>2,910</b>   |

**Notes:**

The information presented on pages 16 to 17 of this Offering Circular has been extracted without material adjustment from the Annual Report and Accounts of the Issuer for the years ended 31st December, 1997 and 31st December, 1996.

# INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ABBEY NATIONAL PLC

| For the six months ended 30th June,<br>1998 and 30th June, 1997              | 1998<br>Before<br>exceptional<br>items | 1998<br>Exceptional<br>items | 1998<br>(Unaudited) | 1997<br>(Unaudited) | 1997<br>Full year |
|--|--|------------------------------|---------------------|---------------------|-------------------|
|  |  |                              | (in £ million)      |                     |                   |
| Net interest income (note 1)   | 1,066                                  | —                            | 1,066               | 880                 | 1,889             |
| Commissions, fees and other income<br>(note 2)                               | 435                                    | (3)                          | 432                 | 363                 | 724               |
| Operating expenses (note 3)  | (619)                                  | (36)                         | (655)               | (552)               | (1,194)           |
| Provisions for bad and doubtful debts  | (79)                                   | —                            | (79)                | (70)                | (121)             |
| Provisions for contingent liabilities and<br>commitments                     | (9)                                    | —                            | (9)                 | (1)                 | (16)              |
| Amounts written off fixed asset<br>investments                               | (7)                                    | —                            | (7)                 | —                   | (3)               |
| <b>Profit on ordinary activities before<br/>tax</b>                          | 787                                    | (39)                         | 748                 | 620                 | 1,279             |
| Tax on profit on ordinary activities   | (246)                                  | 12                           | (234)               | (152)               | (326)             |
| <b>Profit on ordinary activities after<br/>tax</b>                           | 541                                    | (27)                         | 514                 | 468                 | 953               |
| Minority interests – equity  | —                                      | —                            | —                   | 1                   | 1                 |
| <b>Profit attributable to the<br/>shareholders of Abbey National<br/>plc</b> | 541                                    | (27)                         | 514                 | 469                 | 954               |
| Transfer to non-distributable reserve  | —                                      | —                            | —                   | —                   | (78)              |
| Preference dividends   | (16)                                   | —                            | (16)                | (17)                | (35)              |
| Ordinary dividends   | (167)                                  | —                            | (167)               | (144)               | (434)             |
| <b>Profit retained for the period</b>  | 358                                    | (27)                         | 331                 | 308                 | 407               |
| Profit on ordinary activities before tax<br>includes:                        |  |                              |                     |                     |                   |
| for operations acquired in the period  | —                                      | —                            | —                   | —                   | 7                 |
| for operations discontinued in 1998  | 12                                     | —                            | 12                  | —                   | (1)               |
| <b>Average number of ordinary<br/>shares in issue (millions)</b>             | 1,413                                  | —                            | 1,413               | 1,407               | 1,409             |
| <b>Earnings per ordinary share</b>   | 37.2p                                  | —                            | 35.2p               | 32.1p               | 65.2p             |
| <b>Dividend per ordinary share</b>   | 11.75p                                 | —                            | 11.75p              | 10.2p               | 30.7p             |
| <b>Dividend cover</b>  | 3.1                                    | —                            | 3.0                 | 3.1                 | 2.1               |

## Notes on exceptional items:

note 1 For the full year 1997 and half year 1997 net interest income includes charges of £133m and £67m respectively relating to adjustments to the net investment in finance leases, resulting from corporation tax changes. These charges are matched by compensating reductions in the tax charge. Group profit after tax was unaffected.

note 2 Full year 1997 commissions, fees and other income includes a charge of £12m against income from long term assurance business resulting from changes in taxation of pension funds.

note 3 Year 2000 and EMU costs incurred in 1998 are shown as exceptional items within operating expenses and as a charge against income from long term assurance business within commissions, fees and other income. Comparative charges for the full year 1997 were £26m in operating expenses and £2m in commissions, fees and other income. No taxes were incurred in the half year to 30th June, 1997.

The information presented on pages 18 and 19 of this Offering Circular has been extracted without material adjustment from the interim results of the Issuer for the six months ended 30th June, 1997 and 30th June, 1998.

# INTERIM CONSOLIDATED BALANCE SHEET OF ABBEY NATIONAL PLC

| As at 30th June, 1998 and 30th June, 1997           | 1998<br>(Unaudited) | 1997<br>(Unaudited) |
|---|---------------------|---------------------|
|   | (in £ million)      |                     |
| <b>Assets</b>                                       |                     |                     |
| Cash, treasury bills and other eligible bills       | 2,289               | 543                 |
| Loans and advances to banks                         | 10,160              | 5,228               |
| Loans and advances to customers                     | 77,781              | 64,982              |
| Net investment in finance leases                    | 4,668               | 4,524               |
| Securities and investments                          | 49,760              | 39,495              |
| Long-term assurance business                        | 710                 | 616                 |
| Fixed assets  | 736                 | 682                 |
| Operating lease assets                              | 84                  | 45                  |
| Other assets  | 4,666               | 3,354               |
| Assets of long-term assurance funds                 | 11,880              | 9,039               |
| <b>Total assets</b>                                 | <b>162,734</b>      | <b>128,508</b>      |
| <b>Liabilities</b>                                  |                     |                     |
| Deposits by banks                                   | 31,911              | 17,668              |
| Customer accounts                                   | 63,957              | 49,167              |
| Debt securities in issue                            | 38,621              | 38,877              |
| Other liabilities                                   | 8,419               | 6,490               |
| Subordinated liabilities including convertible debt | 2,727               | 2,445               |
| Liabilities of long-term assurance funds            | 11,880              | 9,039               |
| <b>Total liabilities</b>                            | <b>157,515</b>      | <b>123,686</b>      |
| Non-equity shareholders' funds                      | 450                 | 450                 |
| Equity shareholders' funds                          | 4,769               | 4,372               |
| <b>Total liabilities and shareholders' funds</b>    | <b>162,734</b>      | <b>128,508</b>      |

## Notes:

The information presented on pages 18 and 19 of this Offering Circular has been extracted without material adjustment from the interim results of the Issuer for the six months ended 30th June, 1997 and 30th June, 1998.

## UNITED KINGDOM TAXATION

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

1 The Issuer, provided that it continues to be a bank for the purposes of Section 349 of the Income and Corporation Taxes Act 1988 (the "Act") and provided that the interest on the Notes is paid in the ordinary course of business within the meaning of Section 349 of the Act, is entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax.

2 Under current Inland Revenue practice, interest payments on the Notes may not be regarded as paid in the ordinary course of business. However, the Notes will constitute "quoted eurobonds" within the meaning of Section 124 of the Act, whether or not the Issuer is a bank for the purposes of the Act and whether or not the interest is paid in the ordinary course of business, while the Notes remain in bearer form and continue to be listed on a "recognised stock exchange" within the meaning of Section 841 of the Act (the London Stock Exchange is recognised for these purposes). Accordingly, payments of interest on the Notes may, in any event, be made without withholding or deduction for or on account of United Kingdom income tax:

- (i) where payment is made by or through an overseas paying agent; or
- (ii) if payment is made by or through a paying agent at its specified office located in the United Kingdom, where the Notes are held in a "recognised clearing system" within the meaning of Section 841A of the Act (Euroclear and Cedelbank are recognised for these purposes) or where the person who is the beneficial owner of the Notes and the related Coupons is not resident in the United Kingdom and in each case the person by or through whom the payment is made receives a declaration in the form required by law that one of those conditions is satisfied.

In all other cases tax would, subject to any relief available under any applicable double taxation convention, have to be withheld at the lower rate of income tax (currently 20%).

3 So long as the Notes remain in bearer form and are listed on a recognised stock exchange, any person in the United Kingdom who, in the course of a trade or profession:

- (a) acts as a custodian of the Notes and receives interest or has it paid at its direction or with its consent to another person; or
- (b) collects or secures (or arranges to collect or secure) payment of or receives interest on the Notes for another person (other than merely by clearing, or arranging to clear, a cheque),

may be required to account for (and therefore withhold) United Kingdom income tax at the lower rate (currently 20%) from such interest unless certain exceptions apply, such exceptions including that:

- (i) the Notes are held in a recognised clearing system (as described above) and the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system; or
- (ii) the Notes are held in a recognised clearing system and the collecting agent is acting as depositary for the recognised clearing system; or
- (iii) the person beneficially entitled to the interest is not resident in the United Kingdom and beneficially owns the Notes,

and in cases (i) and (iii) a declaration has been made in the form required by law that one of those conditions is satisfied and the Inland Revenue has not issued an appropriate direction to the effect that the exception does not apply.

There are also other exemptions for certain types of Noteholder in certain circumstances (e.g. pension funds, charities, non-resident trusts, local authorities, health service bodies etc.).

4 There is currently a proposed directive before the European Commission (which might or might not be adopted) to oblige Member States to adopt either a “withholding tax system” or an “information reporting system” in relation to interest, discounts or premiums (which would include interest on the Notes).

The “withholding tax system” would require a paying agent established in an EU Member State to withhold tax at a minimum rate of 20% from any interest, discounts or premiums paid to an individual resident in another EU Member State unless such an individual presents a certificate from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The “information reporting system” would require an EU Member State to supply other Member States with details of any payment of interest, discounts or premiums made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term “paying agent” is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1st January, 2001.

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

Although the proposed directive is not intended to affect the withholding tax treatment of payments to other persons or persons resident outside the Member States, the impact of practical arrangements for implementation of the proposed directive (if adopted) cannot currently be foreseen.

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

## SUBSCRIPTION AND SALE

Lehman Brothers International (Europe), Barclays Bank PLC, Paribas, UBS AG acting through its division Warburg Dillon Read, Banco de Bilbao Vizcaya, S.A., Banco Espírito Santo de Investimento S.A., Crédit Commercial de France, Société Générale and Unicredito Italiano S.p.A. (the "Managers") have, pursuant to a Subscription Agreement dated 9th February 1999 (the "Subscription Agreement"), agreed with the Issuer to subscribe and pay for the Notes at 99.772% of their principal amount, less a selling commission of 0.25% of the principal amount of the Notes. The Issuer will pay to the Managers a combined management and underwriting commission of 0.20% of the principal amount of the Notes. The Issuer has also agreed to reimburse the Managers in connection with certain expenses of the issue. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

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

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

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

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

Each Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA;
- (ii) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

## GENERAL INFORMATION

(1) The listing of the Notes on the London Stock Exchange will be expressed as a percentage of their principal amount. It is expected that listing of the Notes on the London Stock Exchange will be granted on 10th February, 1999 subject only to the issue of the Temporary Global Note. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in euros and for delivery on the third working day after the date of the transaction.

(2) Application has also been made to list the Notes on the Luxembourg Stock Exchange. A legal notice relating to the issue, and the Memorandum and Articles of Association of the Issuer, will be registered with the *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where such documents may be examined and copies obtained.

(3) Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Group since 30th June, 1998 (being the date to which the interim results of the Group for the six month period ended 30th June, 1998 have been prepared), and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31st December, 1997 (being the date of the last published annual accounts of the Group).

(4) Neither the Issuer nor the Group is or has been involved in any litigation or arbitration proceedings which may have, or have had during the previous 12 months, a significant effect upon the financial position of the Issuer or the Group nor, so far as the Issuer is aware, are any such litigation or arbitration proceedings pending or threatened.

(5) In 1996 the directors of the Issuer received a demand against its subsidiary, ANTS, by an overseas tax authority relating to the repayment of certain tax credits received and related charges. At market exchange rates prevailing at 31st December, 1997, this amounted to approximately £106 million. The Issuer believes the basis for the demand is without merit and has been advised that it has strong grounds to challenge the validity of the demand. No specific provision has been made.

(6) The consolidated accounts of the Issuer for each of the three years ended 31st December, 1995, 31st December, 1996 and 31st December, 1997 were audited by Coopers & Lybrand, Chartered Accountants in accordance with auditing standards and have been reported on without qualification. On 31st July, 1998, Coopers & Lybrand merged its business with Price Waterhouse to form a new partnership called PricewaterhouseCoopers. The successor firm was appointed as auditors of the Issuer on 28th July, 1998. The address of PricewaterhouseCoopers is 1 Embankment Place, London WC2N 6NN. On 10th November 1998, the Issuer announced that it had decided to recommend to its shareholders at the Annual General Meeting in April 1999 a resolution that Deloitte & Touche be appointed as its auditors. PricewaterhouseCoopers will complete the 1998 audit of the Group.

(7) The summary financial information relating to the Issuer contained in this document for each of the two years ended 31st December, 1997, does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 of Great Britain (the "Companies Act"), but has been derived from the audited consolidated financial statements of the Issuer for those years. The statutory consolidated accounts for the Issuer for each of the two financial years ended 31st December, 1997 were delivered to the Registrar of Companies in England and Wales. The auditors of the Issuer have made a report under section 235 of the Companies Act in respect of the statutory consolidated accounts for the two financial years ended 31st December, 1997 and such report was an unqualified report and did not contain a statement under section 273(2) or (3) of the Companies Act.

(8) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 15th December, 1998 and by an approval and authorisation passed on 5th February, 1999.

(9) The Notes have been accepted for clearance through Euroclear and Cedelbank. The ISIN for this issue is XS0094515953 and the Common Code is 9451595.

(10) Copies of the following documents may be inspected at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB, during usual business hours, on any weekday (Saturdays, Sundays and public holidays excepted) for 14 days from the date of this Offering Circular:

- (i) the Memorandum and Articles of Association of the Issuer;

- (ii) the Annual Report and Accounts of the Issuer (consolidated Group accounts) for the years ended 31st December, 1996 and 31st December, 1997;
- (iii) the interim financial statements of the Issuer (consolidated financial statements) for the half year ended 30th June, 1998;
- (iv) the Subscription Agreement; and
- (v) drafts (subject to alteration) of the Trust Deed and the Paying Agency Agreement.

(11) So long as any of the Notes remains outstanding, copies of each of the documents referred to in paragraph 10 above will be available at the specified office for the time being of the Paying Agent in Luxembourg and copies of the documents referred to in sub-paragraphs (ii) and (iii) of paragraph 10 above will be available for collection at the specified office for the time being of the Paying Agent in Luxembourg.

(12) The Issuer publishes annual financial statements and semi-annual interim financial statements. The most recent annual and interim financial statements of the Issuer will be available at the offices of the Paying Agent in Luxembourg.



**REGISTERED AND HEAD OFFICE OF THE ISSUER**

Abbey House  
Baker Street  
London NW1 6XL

**TRUSTEE**

The Law Debenture Trust Corporation p.l.c.  
Princes House  
95 Gresham Street  
London EC2V 7LY

**PRINCIPAL PAYING AGENT**

The Chase Manhattan Bank  
Trinity Tower  
9 Thomas More Street  
London E1 9YT

**PAYING AGENT**

Chase Manhattan Bank Luxembourg S.A.  
5 Rue Plaetis  
L-2338 Luxembourg

**LEGAL ADVISERS**

To the Managers and the Trustee

Allen & Overy  
One New Change  
London EC4M 9QQ

To the Issuer

Slaughter and May  
35 Basinghall Street  
London EC2V 5DB

**REGISTERED AUDITORS OF THE ISSUER**

PricewaterhouseCoopers  
Chartered Accountants  
1 Embankment Place  
London WC2N 6NN

**LONDON LISTING AGENT**

Lehman Brothers International (Europe)  
One Broadgate  
London EC2M 7HA

**LUXEMBOURG LISTING AGENT**

Kredietbank S.A. Luxembourgeoise  
43 boulevard Royal  
L-2955 Luxembourg