

SC218813



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COMPANIES HOUSE 19/03/03



## **HBOS plc**

*(incorporated in Scotland under the Companies Act 1985 with registered number SC 218813)*

**U.S.\$ 1,000,000,000 6.85 per cent.**

**Undated Subordinated Notes**

**Issue price: 100 per cent.**

The U.S.\$1,000,000,000 6.85 per cent. Undated Subordinated Notes (the "Notes") of HBOS plc ("HBOS" or the "Issuer") are proposed to be issued on 21 March 2003 (the "Closing Date"). The Notes will bear interest at 6.85 per cent. per annum payable quarterly in arrear on 23 March, 23 June, 23 September and 23 December in each year (each an "Interest Payment Date"), except that the first such interest payment shall be payable on 23 June 2003 in respect of the period from (and including) the Closing Date to (but excluding) 23 June 2003.

The Notes will be perpetual securities and not subject to any mandatory redemption provisions. Subject to the prior consent of the Financial Services Authority (the "FSA") (if then required), the Notes will be subject to redemption at the option of the Issuer in whole, but not in part only, at par together with accrued interest and Arrears of Interest (as defined under "Terms and Conditions of the Notes - Definitions") (if any) and any additional amounts which may be payable in respect of the Notes under "Terms and Conditions of the Notes - Taxation" at any time if the Issuer is required to pay additional amounts in respect of United Kingdom taxation. The Notes are also redeemable at any time at the option of the Issuer (subject to prior FSA consent, if then required) upon not less than 15 nor more than 30 days' notice at their par amount together, in each case, with accrued interest, Arrears of Interest (if any) and any additional amounts which may be payable in respect of the Notes under "Terms and Conditions of the Notes - Taxation".

The Notes will constitute direct and unsecured obligations of the Issuer, subordinated in the event of a winding up of the Issuer to the rights of Senior Creditors (as defined under "Terms and Conditions of the Notes - Definitions").

Application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "United Kingdom Listing Authority" or "UKLA") for the Notes to be admitted to the official list of the UKLA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List of the United Kingdom Listing Authority together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange. A copy of this Offering Circular, which comprises listing particulars, has been delivered to the Registrar of Companies in Scotland as required by Section 83 of the Financial Services and Markets Act 2000.

The Notes will be represented initially by a Temporary Global Note (the "Temporary Global Note") which will be delivered on the Closing Date to a custodian on behalf of the Initial Holder (as defined herein). The Temporary Global Note will be exchangeable for interests in a Permanent Global Note (the "Permanent Global Note") on or after 1 May 2003 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form in denominations of U.S.\$1,000, U.S.\$10,000 or U.S.\$100,000 only in the limited circumstances set out therein. See "Summary of Provisions Relating to the Notes while in Global Form".

The date of this Offering Circular is 19 March 2003

*This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 74 of the Financial Services and Markets Act 2000 by the UKLA for the purpose of giving information with regard to HBOS, HBOS and its subsidiaries and affiliates taken as a whole (the "HBOS Group"), and the Notes. HBOS accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of HBOS (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

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

*No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of HBOS. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.*

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

*Unless otherwise specified or the context otherwise requires, references in this Offering Circular to "£" and "Sterling" are to the lawful currency of the United Kingdom, to "U.S.\$" and "U.S. dollars" are to the lawful currency of the United States of America, to "€" 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 Community, as amended and to "¥" are to the lawful currency of Japan.*

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## TERMS AND CONDITIONS OF THE NOTES

*The terms and conditions to be endorsed on each of the Notes in definitive form (if issued) will be substantially in the following form:*

The U.S.\$1,000,000,000 6.85 per cent. Undated Subordinated Notes (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes) of HBOS plc (“HBOS” or the “Issuer”) are constituted by a trust deed dated 21 March 2003 (the “Trust Deed”) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the “Noteholders”) and the holders of the interest coupons appertaining to the Notes (respectively, the “Couponholders” and the “Coupons”, which expression shall, unless the context otherwise requires, include the talons for further Coupons (the “Talons”)). The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 26 November 2002 and 24 February 2003 and a resolution of a duly constituted committee of the Board of Directors of the Issuer passed on 13 March 2003. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 21 March 2003 (the “Agency Agreement”) made between the Issuer, Citibank, N.A. as principal paying agent (the “Principal Paying Agent”), the other initial paying agents (together with the Principal Paying Agent, unless the context otherwise requires, the “Paying Agents”) and the Trustee are available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of each of the Paying Agents referred to below. 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 Agency Agreement applicable to them.

### 1 Definitions

In these Conditions, except to the extent that the context otherwise requires:

“Arrears of Interest” means, so long as it remains unpaid, any interest not paid on an Interest Payment Date, together with any other interest not paid on any other Interest Payment Date(s);

“Assets” means the unconsolidated gross assets of the Issuer all as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent assets and for subsequent events, all in such manner as the directors of the Issuer, the auditors of the Issuer or the liquidator of the Issuer (as the case may be) may determine;

“Compulsory Interest Payment Date” means any Interest Payment Date if, in the six calendar months immediately preceding such Interest Payment Date, any dividend has been declared or paid or any payment of interest made on any class of share capital of the Issuer or any of the Preferred Securities or any other obligations which rank in a winding up of the Issuer junior to the claims of the Noteholders;

“€” means the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;

“FSA” means the Financial Services Authority of the United Kingdom and shall include any successor organisation responsible for the supervision of banks’ regulatory functions in the United Kingdom;

“holder”, in relation to a Note, Coupon or Talon, means the bearer of such Note, Coupon or Talon;

“Interest Commencement Date” means 21 March 2003;

“Interest Payment Date” means 23 March, 23 June, 23 September and 23 December in each year, commencing 23 June 2003;

“Interest Period” means the period commencing on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and thereafter each successive period commencing on (and including) an Interest Payment Date and ending on (but excluding) the next following Interest Payment Date;

“Liabilities” means the unconsolidated gross liabilities of the Issuer, all 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 of the Issuer, the auditors of the Issuer or the liquidator of the Issuer (as the case may be) may determine;

“Optional Interest Payment Date” means any Interest Payment Date other than a Compulsory Interest Payment Date;

“Permitted Reorganisation” means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all of the business, undertaking and assets of the Issuer are transferred to a successor entity or the substitution in place of the Issuer of a subsidiary of the Issuer, the terms of which reconstruction, amalgamation, reorganisation, merger, consolidation or substitution (i) have previously been approved by the Trustee in writing or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders and (ii) do not provide that the Notes shall thereby become repayable;

“Preferred Securities” means any securities issued by the Issuer from time to time, or in respect of which the Issuer has assumed any obligations, and which, in each case, are expressed to be, or are deemed at any time by the FSA to be or to be capable of being classified as, Tier 1 Capital;

“relevant date” means, in respect of any payment on the Notes or Coupons, the date on which such payment first becomes due but, if the full amount of the money payable has not been received in New York City by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Noteholders by the Issuer in accordance with Condition 16;

“Relevant Supervisory Consent” means the consent to the relevant redemption, payment, repayment or purchase, as the case may be, of the FSA (so long as the Issuer is required by the FSA to obtain such consent);

“Senior Creditors” means all creditors of the Issuer (i) who are unsubordinated creditors of the Issuer, or (ii) 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 unsubordinated creditors of the Issuer but not further or otherwise, or who are subordinated creditors of the Issuer, other than in any such case those whose claims are, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders;

“£” means the lawful currency of the United Kingdom;

“Taxes” means any present or future taxes, duties, assessments or governmental charges of whatsoever nature;

“Tier 1 Capital” has the meaning ascribed to it in the FSA’s “Interim Prudential Sourcebook: Banks” or any successor publication replacing such sourcebook;

“United Kingdom” means the United Kingdom of Great Britain and Northern Ireland;

“U.S.\$” and “U.S. dollars” means the lawful currency of the United States of America; and

“¥” means the lawful currency of Japan.

## 2 Form, Denomination and Transfer

The Notes are issued in the form of serially numbered bearer Notes in denominations of U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000 each with Coupons and a Talon attached and title thereto will pass by delivery. Notes of one denomination are not exchangeable for Notes of any other denomination.

The Issuer, the Trustee and the Paying Agents may (to the fullest extent permitted by applicable law) deem and treat the holder of any Note or Coupon as the absolute owner for all purposes (notwithstanding any notice to the contrary and whether or not such Note or Coupon shall be overdue and notwithstanding any notice of ownership, trust or any interest in it, any writing on the Note or Coupon or any previous loss or theft thereof) and no person shall be liable for so treating the holder.

## 3 Status and Subordination

### (a) Status

The Notes and the Coupons are unsecured, subordinated obligations of the Issuer, conditional as provided in Condition 3(c)(i), and rank *pari passu* and without any preference among themselves and *pari passu* in point of subordination with its €415,000,000 Fixed to Floating Rate Subordinated Extendable Maturity Notes 2048, £245,000,000 7.881 per cent. Subordinated Extendable Maturity Notes 2048, £300,000,000 7.50 per cent. Undated Subordinated Step-up Notes, €300,000,000 Floating Rate Undated Subordinated Step-up Notes, ¥42,500,000,000 3.50 per cent. Undated Subordinated Step-up Notes, £600,000,000 Undated Subordinated Notes, €500,000,000 Fixed to Floating Rate Undated Subordinated Notes and £500,000,000 5.75 per cent. Undated Subordinated Step-up Notes, (in each case, together with any further issues which shall be consolidated and form a single series therewith) and senior in point of subordination to its obligations in respect of the Preferred Securities and junior in point of subordination to its obligations in relation to Senior Creditors (as further described in 3(c) below).

### (b) Set-Off

Subject to applicable law, no Noteholder 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 Notes or the Coupons and each Noteholder and Couponholder shall, by virtue of being the holder of any Note or Coupon (as the case may be), be deemed to have waived all such rights of set-off, compensation or retention.

### (c) Subordination

- (i) The rights of the Noteholders and Couponholders are subordinated to the claims of Senior Creditors and, accordingly, payments of principal and interest are conditional upon the Issuer being solvent at the time for payment by the Issuer, and no principal or interest shall be payable in respect of the Notes except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purposes of this Condition 3(c)(i), the Issuer shall be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Issuer by two directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding up, its liquidator shall, in the absence of manifest or proven error, be treated and accepted by the Issuer, the Trustee, the Noteholders and the Couponholders and all other interested parties as correct and sufficient evidence thereof. The Trustee may rely on certificates or reports provided by the auditors of the Issuer whether or not any such certificate or report or any engagement letter or other document

entered into by the Trustee and/or the auditors of the Issuer in connection therewith contains any limit (whether monetary or otherwise) on the liability of such auditors.

- (ii) If at any time an order is made or an effective resolution is passed for the winding up of the Issuer in Scotland (except in respect of a Permitted Reorganisation), there shall be payable on each Note (in lieu of any other payment, but subject as provided in this Condition 3(c)(ii)), such amount, if any, as would have been payable to the holder thereof if, on the day immediately prior to the commencement of the winding up of the Issuer and thereafter, such Noteholder were the holder of a preference share in the capital of the Issuer of a class having a preferential right to a return of assets in the winding up over the holders of all issued shares, including preference shares, for the time being in the capital of the Issuer and any Preferred Securities and any other obligations which rank in a winding up of the Issuer junior to the claims of Noteholders, on the assumption that such preference shareholders were entitled (to the exclusion of any other rights or privileges) to receive on a return of assets in such winding up an amount equal to the principal amount of such Note, together with Arrears of Interest, if any, and any accrued interest (other than Arrears of Interest) which is payable (as provided in the Trust Deed).

#### **4 Interest**

##### *(a) Accrual*

The Notes bear interest from (and including) the Interest Commencement Date at the rate of 6.85 per cent. per annum in accordance with the provisions of this Condition 4.

Subject to Conditions 3(c)(i) and 4(b)(i), interest shall be payable on the Notes in arrear on each Interest Payment Date as provided in this Condition 4. The amount of interest payable on each Interest Payment Date shall be U.S.\$17.13 per U.S.\$1,000 in principal amount, U.S.\$171.30 per U.S.\$10,000 in principal amount and U.S.\$1,713.00 per U.S.\$100,000 in principal amount of the Notes, save that in respect of the first Interest Period, the amount of interest payable on the first Interest Payment Date shall be U.S.\$17.51 per U.S.\$1,000 in principal amount, U.S.\$175.10 per U.S.\$10,000 in principal amount and U.S.\$1,751.00 per U.S.\$100,000 in principal amount of the Notes.

Interest shall accrue on the Notes on the basis that where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, that the day-count fraction used will be the number of days in the period, from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date or, if earlier, the relevant payment date divided by 360 (the number of days being calculated on the basis of a year of 360 days with 12 30-day months).

If the Notes are to be redeemed pursuant to Condition 5, the Notes will cease to bear interest from (and including) the due date for redemption thereof unless, upon due presentation, payment of principal in respect of the Note is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

##### *(b) Payment of Interest*

- (i) Interest payments (excluding Arrears of Interest) on the Notes shall (subject to Condition 3(c)(i)) be payable on each Compulsory Interest Payment Date in respect of the Interest Period ending on the day immediately preceding such date. On any Optional Interest Payment Date there may (subject to Condition 3(c)(i)) be paid (if the Issuer so elects and gives notice of such election to the Noteholders in accordance with sub-paragraph (ii) of this Condition 4(b)) the interest payable on such Optional Interest Payment Date accrued in the



Interest Period ending on the day immediately preceding such date, but the Issuer shall not be under any obligation to make such payment other than (subject to Condition 3(c)(i)) where such election is made and any failure to pay (other than where such election is made) shall not constitute a default by the Issuer for any purpose. Arrears of Interest may, at the option of the Issuer (subject to Condition 3(c)(i)), be paid in whole or in any part at any time upon the expiration of not less than seven days' notice to such effect given by the Issuer to the Trustee and the Principal Paying Agent, and to the Noteholders in accordance with Condition 16, but all Arrears of Interest on all Notes outstanding (as defined in the Trust Deed) shall (subject only to Condition 3(c)(ii)) become due in full on whichever is the earliest of (i) the date upon which a dividend or interest is next paid on any class of share capital of the Issuer or any of the Preferred Securities or any other obligations which rank in a winding up of the Issuer junior to the claims of the Noteholders, (ii) the date set for any redemption pursuant to Condition 5 and (iii) the commencement of winding up of the Issuer (other than in respect of a Permitted Reorganisation).

Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay Arrears of Interest in whole or in part, the Issuer shall be obliged (subject to Condition 3(c)(i)) to pay such Arrears of Interest in whole or in part upon the expiration of such notice. Where Arrears of Interest are paid in part, each part payment shall be applied in payment of the Arrears of Interest accrued in respect of the relative Interest Payment Date (or consecutive Interest Payment Dates) furthest from the date of payment. Arrears of Interest shall not themselves bear interest.

- (ii) The Issuer shall give not less than 30 days' notice prior to any Interest Payment Date to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders:
  - (A) if such Interest Payment Date will be an Optional Interest Payment Date; and
  - (B) whether or not the Issuer elects to pay the interest due on such Optional Interest Payment Date.

## **5 Redemption and Purchase**

### *(a) Limitation on Redemption*

The Notes are undated and, accordingly, have no final maturity date and may not be redeemed except in accordance with the following provisions of this Condition 5 or Condition 8. Any redemption or purchase of Notes pursuant to this Condition 5 is subject to the prior consent of the FSA (so long as the Issuer is required by the FSA to obtain such consent).

### *(b) Redemption for Tax Reasons*

The Notes may (subject as provided in the last sentence of paragraph (a)) be redeemed at the option of the Issuer in whole, but not in part, at any time, on it giving not less than 15 nor more than 30 days' irrevocable notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to above that there is more than an insubstantial risk that on the occasion of the next payment due in respect of the Notes, the Issuer would be required to pay additional amounts as provided in Condition 7 or the payment of interest in respect of the Notes would be treated as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced). Notes redeemed pursuant to this Condition 5(b) will be redeemed at their principal amount together with interest accrued to (but excluding) the date of redemption and all

Arrears of Interest (if any). Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

(c) *Redemption at the Option of the Issuer*

The Issuer may (subject as provided in the last sentence of paragraph (a)), at any time, on it giving not more than 30 nor less than 15 days' irrevocable notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders, redeem all, but not some only, of the Notes at their principal amount, together with interest accrued to (but excluding) the date of redemption and all Arrears of Interest (if any). Upon the expiry of such notice the Issuer shall (subject to Condition 3(c)(i)) be bound to redeem the Notes accordingly.

(d) *Purchases*

The Issuer or any of its subsidiaries may (subject as provided in the last sentence of paragraph (a)) at any time purchase Notes in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and unexchanged Talons appertaining thereto. If purchases are made by tender, tenders must be made available to all Noteholders alike.

(e) *Cancellation*

All Notes redeemed will be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons presented therewith) and such Notes may not be reissued or resold. Notes purchased by the Issuer or any of its subsidiaries may be held or resold or surrendered for cancellation.

## **6 Payments**

(a) *Method of Payment*

Subject as provided below, all 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 the Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent (subject to paragraph (b)) by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) *Payment on Winding-Up*

If any payment is to be made in respect of interest, the Interest Payment Date in respect of which falls on or after the date on which the winding up in Scotland of the Issuer is deemed to have commenced, such payment shall be made only against presentation of the relevant Note, and the Coupon for any such Interest Payment Date, any unexchanged Talons and unmatured Coupons shall be void. In addition, any Note presented for payment after an order is made or an effective resolution is passed for the winding up in Scotland of the Issuer must be presented together with all Coupons in respect of *Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the winding up of the Issuer* and any unexchanged Talons, failing which there shall be withheld from any payment otherwise due to the Noteholders such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Note in respect of the Interest Period current at the date of the commencement of the winding up.

(c) *Payments Subject to Fiscal Laws*

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Unmatured Coupons*

Subject to Condition 6(b), upon the due date for redemption of any Note, unmatured Coupons (which expression shall include Coupons falling to be issued on exchange of Talons, other than such Coupons in respect of Interest Payment Dates falling on or prior to such due date for redemption) relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Note is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(e) *Payments on Business Days*

A Note or Coupon may only be presented for payment on a day which is a business day. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition "business day" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation and in London and, in the case of a payment by transfer to a U.S. dollar account as referred to in Condition 6(a), in New York City.

(f) *Paying Agents*

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) Paying Agents having specified offices in at least two major European cities approved by the Trustee (including London, for so long as the Notes are admitted to the Official List of the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's market for listed securities) and (ii) 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. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders in accordance with Condition 16.

(g) *Exchange of Talons*

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon forming part of such Coupon sheet may, unless the due date for redemption of the relevant Note shall have fallen on or prior to such Interest Payment Date, be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including a further Talon, subject to the provisions of Condition 10.

## **7 Taxation**

All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made free and clear of, and without withholding of or deduction for, or on account of, any Taxes imposed or levied by or on

behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In the event of such withholding or deduction, the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by Noteholders and 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 the Coupons (as the case may be) in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment by, or on behalf of, a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or (ii) is liable to such Taxes in respect of the Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) presented for payment more than 30 days after the relevant date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days assuming that day to have been a day on which commercial banks and foreign exchange markets are open in the place of presentation; or
- (c) 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
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

Unless the context otherwise requires, in these Conditions, (i) references to “interest” shall be deemed to include any Arrears of Interest and (ii) references to “principal” or “interest” shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **8 Default**

- (a) If default is made in the payment of any principal in respect of the Notes for a period of 14 days or more after the due date for the same, or in the payment of any interest for a period of 14 days or more after a Compulsory Interest Payment Date or any other date on which any payment of interest is due, the Trustee may, subject as provided in Condition 9(a), at its discretion and without further notice, institute proceedings for the winding up of the Issuer in Scotland (but not elsewhere) and/or prove in any winding up of the Issuer (whether in Scotland or elsewhere), but may take no other action in respect of such default. For the purposes of this Condition 8(a), a payment shall be deemed to be due even if the condition set out in Condition 3(c)(i) is not satisfied with respect to the Issuer.
- (b) The Trustee may, subject as provided in Condition 9(a), 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 or the Notes (other than any obligation for payment of any principal or interest in respect of the Notes or Coupons) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee’s fees and expenses incurred by it in its personal capacity).

*The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee and the Noteholders in the event of a breach of certain covenants (other than payment covenants) by the Issuer.*

## **9 Enforcement of Rights**

- (a) The Trustee shall not be bound to take the action referred to in paragraphs (a) or (b) of Condition 8 to enforce the obligations of the Issuer in respect of the Notes or any other proceedings pursuant to, or in connection with, the Trust Deed or the Notes unless (i) it is so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes then outstanding and (ii) it is indemnified to its satisfaction.
- (b) No Noteholder or Couponholder shall be entitled to institute proceedings directly against the Issuer or prove in the winding up of the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure is continuing, in which event any Noteholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself institute such proceedings and/or prove in the winding up of the Issuer to the same extent and in the same jurisdiction (but not further or otherwise) that the Trustee would have been entitled to do so in respect of the Notes.
- (c) No remedy against the Issuer, other than as referred to in Condition 8, 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.

## **10 Prescription**

Notes and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within 10 years and five years respectively from the relevant date in respect thereof, subject to Condition 6. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to this Condition 10 or Condition 6.

## **11 Meetings of Noteholders, Modification and Waiver**

- (a) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these 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 of the principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution 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, of the 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.
- (b) The Trust Deed provides for a resolution, with or without notice, in writing signed by or on behalf of the holder or holders of not less than 90 per cent. of the principal amount of the Notes for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Noteholders.

- (c) The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest or proven error. Any such modification, waiver or authorisation shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

## **12 Substitution**

- (a) 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, may agree, without the consent of the Noteholders or Couponholders, to the substitution of any Successor in Business (as defined in the Trust Deed) of the Issuer or of a subsidiary of the Issuer or any such Successor in Business in place of the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons, provided:
- (i) (in the case of substitution of any company which is a subsidiary of the Issuer or of such Successor in Business) that the obligations of such subsidiary in respect of the Trust Deed, the Notes and the Coupons shall be unconditionally and irrevocably guaranteed by the Issuer or such Successor in Business in such form as the Trustee may require; and
  - (ii) that the obligations of such Successor in Business or of such subsidiary of the Issuer and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Notes and Coupons.
- (b) In the case of substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons and/or the Trust Deed and/or the Agency Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (c) Any such substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

## **13 Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (save for the first payment of interest thereon) and (in the case of notes) so that the same shall be consolidated and form a single series with the Notes or upon such terms as to ranking, interest, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such notes, if they are to form a single series with the Notes, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

## **14 Replacement of Notes, Coupons and Talons**

If a Note, Coupon or Talon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment by the claimant of such costs as may be incurred in

connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **15 Indemnification and Exercise of Functions**

- (a) The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce payment unless indemnified to its satisfaction.
- (b) In connection with the exercise of any of its trusts, powers or discretions (including but not limited to those relating to any proposed modification, waiver, authorisation 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 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. The Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim from the Issuer or any other person any indemnification or payment in respect of any tax or other consequence thereof upon individual Noteholders or Couponholders except to the extent provided for by Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

## **16 Notices**

- (a) All notices regarding the Notes will be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times). If, in the opinion of the Trustee, any such publication is not possible, notice shall be validly given if published in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.
- (b) Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition.

## **17 Contracts (Rights of Third Parties) Act 1999**

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

## **18 Governing Law and Jurisdiction**

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

The Issuer has in the Trust Deed irrevocably submitted for all purposes of or in connection with the Trust Deed, the Notes, the Coupons and the Talons to the jurisdiction of the English Courts. The Issuer hereby irrevocably agrees that service of process in England may be made upon it at HBOS Treasury Services plc, 33 Old Broad Street, London EC2N 1HZ (Attention: Legal and Regulatory Risk), or such other person in England notified from time to time to the Trustee, to accept service of process on its behalf in England in

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

*The following is a summary of the provisions to be contained in the Trust Deed constituting the Notes and in the Global Notes (as defined below) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Temporary Global Note or the Permanent Global Note.*

1. The Notes will initially be in the form of a Temporary Global Note which will be delivered on the Closing Date to a custodian on behalf of the Initial Holder.
2. The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 1 May 2003 upon certification as to non-U.S. beneficial ownership.
3. The Permanent Global Note will be exchangeable in whole but not in part only (free of charge to the holder) for definitive Notes (i) upon the happening of any of the events set out in Condition 8(a) or (ii) if HBOS would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) which would not be suffered were the Notes in definitive form and a certificate of such effect signed by two directors of HBOS is given to the Trustee.

Thereupon (in the case of (i) above) the holder may give notice to the Trustee, and (in the case of (ii) above) HBOS may give notice to the Trustee and to the Noteholders in accordance with Condition 16, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date the holder of the Permanent Global Note may surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note HBOS will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes in bearer form, serially numbered, in denominations of U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000 (having attached to them Coupons in respect of interest which has not already been paid on the Permanent Global Note and in respect of which claims shall not have become prescribed and, where appropriate, a Talon for further Coupons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form scheduled to the Trust Deed.

“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.

4. No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate schedule to the Permanent Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be prima facie evidence that such payment has been made in respect of the Notes.
5. For so long as all the Notes are represented by the Permanent Global Note, notices to Noteholders may be given by delivery of the relevant notice to the holder thereof rather than by publication as required by Condition 16.



6. Claims against HBOS in respect of principal and interest on the Notes represented by the Permanent Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the relevant date.
7. Cancellation of any Note represented by the Permanent Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the Permanent Global Note on the relevant schedule thereto.
8. The holder of a Global Note shall, at any meeting of the Noteholders, be treated as having one vote in respect of each U.S.\$1,000 in principal amount of the Notes represented by the Global Note.

## CAPITALISATION AND INDEBTEDNESS OF HBOS

The information in the following table and the notes thereto show the audited consolidated capitalisation and indebtedness of HBOS as at the date set forth below and has been extracted without material adjustment from HBOS Group's Report & Accounts for the year ended 31 December 2002.

	As at 31 December 2002
	<u>(£ millions)</u>
<b>Authorised Capital</b>	
9¼% Non-Cumulative Irredeemable Preference Shares (of £1 each) .....	375
9¼% Non-Cumulative Irredeemable Preference Shares (of £1 each) .....	125
6.125% Non-Cumulative Redeemable Preference Shares (of £1 each) .....	200
Sterling Preference Shares (of £1 each) .....	1,000
8.117% Non-Cumulative Perpetual Preference Shares Class A (of £10 each) .....	3
7.754% Non-Cumulative Perpetual Preference Shares Class B (of £10 each) .....	1
Ordinary Shares (of 25p each) .....	1,185
	<u>2,889</u>
	As at 31 December 2002
	<u>(€ millions)</u>
Euro Preference Shares .....	1,500
	<u>1,500</u>
	As at 31 December 2002
	<u>(£ millions)</u>
<b>Issued Capital</b>	
9¼% Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid) .....	300
9¼% Non-Cumulative Irredeemable Preference Shares (of £1 each, fully paid) .....	100
Ordinary Shares (of 25p each, fully paid) .....	946
Reserves .....	12,423
Shareholders' Funds (including non-equity interests) .....	13,769
Minority Interests - Equity .....	436

	As at 31 December 2002
	(£ millions)
Minority and Other Interests - Non Equity <sup>(1)</sup> .....	1,703
	<u>2,139</u>
<b>Subordinated loan capital<sup>(2)</sup></b>	
Undated <sup>(3)</sup> .....	3,437
Dated <sup>(4)</sup> .....	5,690
Total Capital Resources.....	25,035
<b>Other Borrowings<sup>(5)</sup></b>	
Deposits by banks .....	45,637
Customer accounts .....	150,221
Debt securities in issue.....	80,771
Total Indebtedness.....	276,629
Total Capitalisation and Indebtedness <sup>(7)</sup> .....	301,664

Note:

(1) The Minority and Other Interests - Non Equity was comprised as follows:

	As at 31 December 2002
	(£ millions)
£600 million Perpetual Preferred Securities * .....	600
£250 million Preferred Securities ** .....	250
£150 million Preferred Securities ** .....	150
£245 million Preferred Securities * .....	245
€415 million Preferred Securities * .....	270
£198 million non-cumulative Preference Shares .....	198
Unamortised Premiums, Discounts and Issue Costs.....	(10)
	<u>1,703</u>

\* HBOS provides a subordinated guarantee in respect of each of the issues of £245,000,000 7.881 per cent. Guaranteed Non-voting Non-cumulative Preferred Securities issued by HBOS Sterling Finance (Jersey) L.P., €415,000,000 Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities issued by HBOS Euro Finance (Jersey) L.P. and the issue of £600,000,000 6.461 per cent. Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities Series A issued by HBOS Capital Funding L.P.

\*\* Bank of Scotland has provided a subordinated guarantee in respect of each of the issues of £250,000,000 8.117 per cent. Non-cumulative Perpetual Preferred Securities Class A and £150,000,000 7.754 per cent. Non-cumulative Perpetual Preferred Securities Class B by Bank of Scotland Capital Funding L.P. All other non-equity minority interests are unguaranteed.

- (2) All loan capital issued by the HBOS Group, as detailed in the tables below, has been issued on an unsecured basis. Unless otherwise stated, issues of loan capital are unguaranteed.
- (3) The Subordinated Undated Loan Capital was comprised as follows:

	As at 31 December 2002
	(£ millions)
€500 million Fixed to Floating Rate Undated Subordinated Notes .....	325
£150 million 7.286% Series A Perpetual Regulatory tier One Securities.....	150
£150 million 7.281% Series B Perpetual Regulatory tier One Securities.....	150
£300 million 7.5% Undated Subordinated Step-Up Notes .....	300
JPY 42.5 billion 3.50% Undated Subordinated Yen Step-up Notes .....	222
U.S.\$300 million Reset Notes .....	186
£200 million Perpetual Notes .....	200
£200 million 7.375% Subordinated Guaranteed Bonds* .....	200
€300 million Floating Rate Subordinated Step-Up Notes.....	195
U.S.\$250 million Floating Rate Primary Capital Notes.....	155
£150 million Instruments.....	150
£150 million Instruments.....	150
JPY 17 billion Instruments .....	99
£100 million Instruments.....	100
£100 million 12% Sterling Perpetual Subordinated Bonds.....	100
£100 million 8.75% Sterling Perpetual Subordinated Bonds.....	100
£75 million 13.625% Sterling Perpetual Subordinated Bonds.....	75
JPY 9 billion Instruments .....	47
£50 million 9.375% Sterling Perpetual Subordinated Bonds.....	50
£500 million 5.75% Undated Subordinated Step-up Notes .....	500
Unamortised Premiums, Discounts and Issue Costs.....	(17)
	<u>3,437</u>

\* Clerical Medical Investment Group ("CMIG") (a wholly owned subsidiary of HBOS) has provided a subordinated guarantee to Clerical Medical Finance plc ("CMF") (a wholly owned subsidiary of CMIG) in relation to the issue by CMF of 7.375 per cent. Undated Subordinated Guaranteed Bonds.

- (4) The Subordinated Dated Loan Capital was comprised as follows:

	As at 31 December 2002
	(£ millions)
U.S.\$300 million 8.80% Notes 2004* .....	186
£400 million 8.75% Subordinated Notes 2006 .....	400
U.S.\$150 million 8.85% Notes 2006* .....	93

**As at 31  
December  
2002**

*(£ millions)*

£75 million 9.125% Subordinated Notes 2006.....	75
£60 million 9.00% Instruments 2006.....	60
€650 million 4.75% Subordinated Bonds 2009.....	423
U.S.\$500 million Floating Rate Subordinated Step-up Callable Notes 2009.....	310
€ 500 million 5.50% Instruments 2009.....	325
£75 million Floating Rate Subordinated Notes 2009.....	75
U.S.\$500 million Notes 2010*.....	310
£75 million Floating Rate Instruments 2010.....	75
U.S.\$150 million Notes 2011*.....	93
€7 million Floating Rate Notes 2011.....	5
€750 million Subordinated Fixed Rate Notes 2012.....	488
U.S.\$450 million Subordinated Floating Rate Notes 2012.....	279
£200 million Floating Rate Step-up Callable Subordinated Notes 2012.....	200
€12.8 million 6.25% Instruments 2012.....	8
A\$75 million Callable Notes 2012.....	26
€1,000 Subordinated Callable Fixed/Floating Rate Instruments 2013.....	651
€325 million 6.125% Notes 2013.....	212
£250 million 11% Subordinated Bonds 2014.....	250
£150 million 10.5% Subordinated Bonds 2018.....	150
£250 million 6.375% Instruments 2019.....	250
£500 million 9.375% Subordinated Bonds 2021.....	500
€400 million 6.45% Eurodated Floating Subordinated Guaranteed Bonds 2023**.....	261
Unamortised premiums, discounts and issue costs.....	(15)
	<u>5,690</u>

\* These notes, the proceeds of which are on-lent to Bank of Scotland, are liabilities of wholly-owned subsidiaries of Bank of Scotland and are guaranteed unconditionally by the Bank of Scotland on a subordinated basis.

\*\* CMIG has provided a subordinated guarantee to CMF in relation to the issue by CMF of 6.45 per cent. Eurodated Floating Subordinated Guaranteed Bonds 2023.

- (5) Save for £603 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on advances to customers and certain other assets of the HBOS Group, and £9,286 million of the HBOS Group's debt securities in issue which are unguaranteed but secured on asset backed securities of the HBOS Group, none of the other borrowings listed are secured or guaranteed. As at 31 December 2002, the HBOS Group had contingent liabilities (including guarantees) of £2,829 million. No account has been taken of intra group guarantees.
- (6) On 12 March 2003, HBOS announced its intention to issue, on or around 20 March 2003, €1,000,000,000 4.875 per cent Subordinated Notes due 2015.
- (7) There has been no material change in the capitalisation, indebtedness and contingent liabilities (including guarantees) of HBOS Group since 31 December 2002.

## **DESCRIPTION OF THE BUSINESS OF HBOS AND THE HBOS GROUP**

On 10 September 2001, The Governor & Company of the Bank of Scotland ("Bank of Scotland") and Halifax Group plc ("Halifax Group") merged under HBOS. HBOS is the ultimate holding company for Halifax plc, Bank of Scotland and a number of other subsidiaries principally carrying on financial services business. HBOS is a public limited company incorporated in Scotland (registered number SC218813) under the Companies Act 1985 with its head office, corporate headquarters and registered office at The Mound, Edinburgh, EH1 1YZ. Subsequent to the merger, all of Halifax Group's innovative Tier I and Tier II capital and any guarantee obligations thereunder were transferred to HBOS on 1 July 2002.

The HBOS Group's products and services can be categorised into the following business sectors:

- Retail Banking
- Business Banking
- Corporate Banking
- Insurance & Investment
- Treasury

### **Retail Banking**

The retail operations and consumer credit businesses of Halifax Group were combined with the personal banking division of Bank of Scotland to form the Retail Banking Division of the HBOS Group employing over 40,000 people in over 1,000 branches and 10 call centres throughout the United Kingdom.

The HBOS Group has over 19 million customers and offers an extensive range of personal finance products and services including mortgages, savings, current accounts, credit cards, online services, share dealing and estate agency. In addition to Halifax and Bank of Scotland, other brands within the Retail Banking Division include Intelligent Finance, Birmingham Midshires and The Mortgage Business.

The HBOS Group is the largest mortgage provider in the United Kingdom, with residential mortgages of approximately £145 billion and the United Kingdom's largest savings provider with savings and banking balances of over £100 billion as at 31 December 2002.

### **Business Banking**

The Business Banking Division provides a range of finance products and services principally to small and medium-sized enterprises ("SMEs") through a network of branches and business centres in the United Kingdom and Ireland as well as through internet banking, mail and telephone. The HBOS Group provides a full banking service to SMEs including deposits and investments, business finance, commercial mortgages, free internet banking, merchant services and business insurance. The Business Banking Division also provides specialist services such as asset finance, cashflow finance, motor finance, vehicle management and contract hire. The Business Banking Division employs over 7,400 employees in the United Kingdom, Ireland and Australia.

The HBOS Group provides finance products and services to approximately 33 per cent. (as of September 2002) of the SME market in Scotland and is aiming to capture a significant amount of SME business in England and Wales.

## **Corporate Banking**

The Corporate Banking Division focuses on larger businesses (typically those with an annual turnover in excess of £10 million) and comprises a number of relationship banking and specialist lending teams with responsibilities including working capital finance, term loans, asset finance, multi-currency loans and deposits, project and specialist finance, acquisition finance and syndicated lending. The key objective of these teams is to expand and strengthen the HBOS Group's corporate market share by pursuing a relationship and partnership driven approach and delivering specialist services to existing and new customers.

The HBOS Group employs over 1,500 staff in the Corporate Banking Division in over 20 locations in Scotland and England, with international operations in New York, Chicago, Houston, Los Angeles, Boston, Seattle, Minneapolis, Paris, Frankfurt, Amsterdam, Madrid, Singapore and Sydney.

The HBOS Group was the leader, of deals by volume, in the provision of acquisition finance to the United Kingdom and European management buy-out sector for the year ended 31 December 2001 and is one of the leading providers of debt for public to private transactions.

## **Insurance & Investment**

The Insurance & Investment Division ("IID") comprises a number of different brands including Halifax Financial Services, Bank of Scotland Investment Services, Clerical Medical Investment Group, St James's Place Capital, St Andrew's and esure.

Products offered by the companies within IID include savings, investments and pensions, life and repayment insurance and household, travel and motor insurance distributed through a number of different channels, branches, independent financial advisers, company agents and by telephone.

## **Treasury**

HBOS Treasury Services plc ("Treasury Services") provides centralised wholesale multi-currency funding, liquidity management and treasury services to HBOS and its subsidiary undertakings in the United Kingdom and the Republic of Ireland. Treasury Services manages the market risk arising from the HBOS Group's Retail, Business and Corporate divisions. It operates in the world's foreign exchange and money markets and also provides a range of treasury services to certain of the HBOS Group's customers from offices in London and Glasgow. Treasury Services also trades in foreign exchange and in a limited range of derivative instruments primarily for risk management purposes. It leads the debt capital issuance and asset securitisation activities of the HBOS Group in the United Kingdom. Treasury Services has no subsidiaries.

Following the merger of Halifax Group and Bank of Scotland in 2001, substantially all of the treasury business of Halifax plc was transferred to Bank of Scotland Treasury Services PLC with effect from 1 June 2002. On 14 June 2002, Bank of Scotland Treasury Services PLC changed its name to HBOS Treasury Services plc.

## **Management and Organisation**

The names of the HBOS Directors, all of The Mound, Edinburgh EH1 1YZ, their functions and principal outside activities are as follows:

<b>Director's Name</b>	<b>Responsibilities</b>	<b>Principal outside activities</b>
Lord Stevenson of Coddendam	Chairman	Pearson plc
Sir Ronald Garrick	Deputy Chairman - Non Executive	
James Crosby	Chief Executive	
Mike Ellis	Group Finance Director	
Phil Hodgkinson	Chief Executive, Insurance & Investment Division	
Andy Hornby	Chief Executive, Retail Division	
Gordon McQueen	Chief Executive, Treasury Services Division	
Colin Matthew	Chief Executive, Business Banking Division	
George Mitchell	Chief Executive, Corporate Banking Division	
Charles Dunstone	Non-Executive Director	Carphone Warehouse plc
Tony Hobson	Non-Executive Director	
Brian Ivory	Non-Executive Director	
John Maclean	Non-Executive Director	
Coline McConville	Non-Executive Director	Clear Channel International Limited
Sir Bob Reid	Non-Executive Director	
Louis Sherwood	Non-Executive Director	
Philip Yea	Non-Executive Director	Investcorp International Limited

Certain details of HBOS's principal subsidiaries are as follows:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office/ Head Office</b>
The Governor & Company of the Bank of Scotland	Banking	Scotland	The Mound Edinburgh EH1 1YZ
Halifax plc	Banking services	England and Wales	Trinity Road Halifax HX1 2RG
Halifax Share Dealing Limited	Execution only stockbroking	England and Wales	Trinity Road Halifax HX1 2RG



<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office/ Head Office</b>
HBOS Insurance & Investment Group Limited	Financial Services	England and Wales	Trinity Road Halifax HX1 2RG

Certain details of the principal subsidiary undertakings of HBOS Insurance & Investment Group Limited are set out below:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office</b>	<b>Total % held by HBOS Insurance &amp; Investment Group Ltd</b>
Halifax General Insurance Services Limited	General insurance	England and Wales	Trinity Road Halifax HX1 2RG	100%
Clerical Medical Investment Group Holdings Limited and its subsidiaries	Life assurance	England and Wales	33 Old Broad Street London EC2N 1HZ	100%
Halifax Financial Services (Holdings) Limited and its subsidiaries	Financial services	England and Wales	Trinity Road Halifax HX1 2RG	100%
St James's Place Capital PLC and its subsidiaries	Financial services	England and Wales	J Rothschild House Dollar Street Cirencester GL7 2AQ	60%*

\* as at 31 December 2002

Certain details of the principal subsidiary undertakings of Bank of Scotland are set out below:

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office</b>	<b>Total % held by Bank of Scotland</b>
HBOS Treasury Services plc	Banking	England and Wales	33 Old Broad Street London EC2N 1HZ	100%

<b>Company Name</b>	<b>Activity</b>	<b>Country of Incorporation or Registration</b>	<b>Registered Office</b>	<b>Total % held by Bank of Scotland</b>
Capital Bank plc	Personal finance and banking services	England and Wales	Queens Park Road Handbridge Chester CH88 3AN	100%
Bank of Western Australia Limited	Retail and commercial banking	Australia	Bankwest Tower 108 St Georges Terrace, Perth Australia WA 6000	56.3%*

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\* as at 31 December 2002

## UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on HBOS' understanding of current United Kingdom law and practice. The comments relate to the position of persons (other than dealers or persons connected with HBOS) who are the absolute beneficial owners of their Notes and entitled to the interest thereon. These comments do not necessarily apply where the interest is for tax purposes deemed to be the income of any other person. Any person who is subject to tax in a jurisdiction outside the United Kingdom or who is unsure about their tax position should seek professional advice.

### Interest on the Notes

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of section 841 of the Income and Corporation Taxes Act 1988. The London Stock Exchange is a recognised stock exchange for these purposes. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom tax.

In all other cases, interest will generally be paid under deduction of income tax at the lower rate subject to the availability of other reliefs or to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

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

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

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

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

### United Kingdom Corporation Tax Payers

Noteholders within the charge to United Kingdom corporation tax will generally be subject to tax as income on all profits and gains arising from, and fluctuations in the value of, the Notes broadly in accordance with their statutory accounting treatment. Such Noteholders will generally be charged to tax in each accounting

period by reference to interest accrued and to any profit (or loss) (calculated in accordance with such Noteholders' authorised accounting method) arising in that period. Fluctuations in value relating to foreign exchange gains and losses will be brought into account as income.

### **Other United Kingdom Taxpayers**

A disposal of a Note by a Noteholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a chargeable gain or allowable loss for the purposes of taxation of capital gains. In calculating any gain or loss on disposal of a Note, sterling values are compared at acquisition and transfer. Accordingly, a taxable profit can arise even where the foreign currency amount received on a disposal is less than or the same as the amount paid for the Note. Any accrued interest at the date of disposal will be taxed under the provisions of the Accrued Income Scheme.

A transfer of a Note by a holder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding interest payment date.

### **Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax should be payable on the issue of a Note or on its transfer by delivery.

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

On 21 January 2003, the Council of the European Union published revised proposals for a draft Directive to ensure effective taxation of savings income in the form of interest payments within the European Community. Subject to a number of important conditions being met, it is currently proposed that 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 Directive is not yet final and may be subject to further amendment.

## **SUBSCRIPTION AND SALE**

The initial holder of the Notes (the "Initial Holder") has, under a purchase agreement dated 19 March 2003 (the "Purchase Agreement"), agreed with the Issuer to subscribe for the Notes at the issue price of 100 per cent. of the principal amount thereof. HBOS will pay to the Initial Holder an underwriting commission of 2 per cent. of the principal amount of the Notes and will reimburse certain expenses of the Initial Holder. The Initial Holder is entitled to terminate the Purchase Agreement in certain circumstances prior to payment for the Notes to the Issuer.

### **United States**

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

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

The Initial Holder has agreed that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing 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 (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

The Initial Holder has represented, warranted and agreed that it has not offered or sold and will not offer or sell, any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 ("FSMA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA.

### **General**

No action has been or will be taken by HBOS or the Initial Holder that would permit a public offering of the Notes, or the possession or distribution of this Offering Circular, or any amendment or supplement thereto, or any other offering material relating to the Notes, in any country or 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 other offering material may be distributed or published, in or from any country or

## GENERAL INFORMATION

1. Transactions in respect of the Notes will be settled through HBOS Treasury Services plc. The Stock Exchange Daily Official List (SEDOL) code for the Notes is 3271900 and the International Securities Identification Number (ISIN) for the Notes is GB0032719006.
2. It is expected that admission of the Notes to the Official List and to trading on the London Stock Exchange's market for listed securities will be granted on or before 21 March 2003, subject only to the issue of the Temporary Global Note. Prior to admission to the Official Listing and to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in dollars and for delivery on the third working day after the day of the transaction.
3. HBOS has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of HBOS passed on 26 November 2002 and 24 February 2003 and a resolution of a committee of the Board of Directors of HBOS passed on 13 March 2003.
4. Except as disclosed herein, there has been no significant change in the financial or trading position of HBOS or of the HBOS Group since 31 December 2002 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2002.
5. Neither HBOS nor any member of the HBOS Group is involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the HBOS Group nor is HBOS aware that any such proceedings are pending or threatened.
6. No redemption or purchase for cancellation of the Notes by HBOS or by any of its subsidiaries will be made without the prior consent of the FSA (so long as the Issuer is required by the FSA to obtain such consent).
7. All Notes and Coupons will carry the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code".
8. Copies of the latest annual consolidated audited Report and Accounts of HBOS and the latest interim unaudited consolidated accounts of HBOS may be obtained from, and copies of the Trust Deed and the Agency Agreement will be available for inspection at the specified offices of the Paying Agents during normal business hours for so long as any of the Notes is outstanding.
9. Copies of the following documents may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during usual business hours on any day (Saturdays, Sundays and public holidays excepted) for a period of 14 days from the date hereof:
  - (a) the Memorandum and Articles of Association of HBOS;
  - (b) the consolidated audited Report and Accounts of HBOS for the financial years ended 31 December 2001 and 31 December 2002;
  - (c) drafts (subject to modification) of the Trust Deed to constitute the Notes (which contains the form of the Temporary Global Note, the Permanent Global Note and the definitive Notes, Coupons and Talons) and of the Agency Agreement; and

(d) the Purchase Agreement.

10. HBOS does not publish non-consolidated annual financial statements or non-consolidated interim financial statements.
11. The auditor of HBOS is KPMG Audit Plc, Chartered Accountants and Registered Auditors, and they have audited, and rendered unqualified audit reports (which did not contain any statements made under Section 237(2) or (3) of the Companies Act 1985), on the audited consolidated accounts of HBOS for the years ended 31 December 2001 and 31 December 2002, the audited consolidated accounts of Halifax Group for the year ended 31 December 2000 and the audited consolidated accounts of Bank of Scotland for the year ended 28 February 2001. Statutory accounts for such years have, in the case of Halifax Group, been delivered to the Registrar of Companies in England and Wales and, in the case of HBOS, been delivered to the Registrar of Companies in Scotland.

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