



**AVIVA plc**

*(incorporated in England with limited liability, registered number 2468686)*

**€700,000,000 4.7291 per cent. Fixed/Floating Rate Direct  
Capital Instruments (DCI®)**

Issue Price: 100 per cent.

**£500,000,000 5.9021 per cent. Fixed/Floating Rate Direct  
Capital Instruments (DCI®)**

Issue Price: 100 per cent.

Interest on the €700,000,000 4.7291 per cent. Fixed/Floating Rate Direct Capital Instruments (the "Euro DCIs") and the £500,000,000 5.9021 per cent. Fixed/Floating Rate Direct Capital Instruments (the "Sterling DCIs") and, together with the Euro DCIs, the "DCIs") of Aviva plc (the "Issuer" or "Aviva") will be payable from and including 25 November 2004 to but excluding 28 November 2014 at the rate of 4.7291 per cent. per annum, in respect of the Euro DCIs, and will be payable from and including 25 November 2004 to but excluding 27 July 2020 at the rate of 5.9021 per cent. per annum, in respect of the Sterling DCIs, in each case in arrear on the first Coupon Payment Date (as defined in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively) and thereafter annually in arrear. Following 28 November 2014, the Euro DCIs will bear interest at a rate reset quarterly of 1.77 per cent. per annum above the euro interbank offered rate for three-month euro deposits payable quarterly in arrear on the Coupon Payment Dates (as defined in the Terms and Conditions of the Euro DCIs) falling in February, May, August and November in each year, all as more particularly described in "Terms and Conditions of the Euro DCIs — 5. Coupon Payments". Following 27 July 2020, the Sterling DCIs will bear interest at a rate reset semi-annually of 1.88 per cent. per annum above the sterling interbank offered rate for six-month sterling deposits payable semi-annually in arrear on the Coupon Payment Dates (as defined in the Terms and Conditions of the Sterling DCIs) falling in January and July in each year, all as more particularly described in "Terms and Conditions of the Sterling DCIs — 5. Coupon Payments". Coupon Payments (as defined in the Terms and Conditions of the Euro DCIs and Terms and Conditions of the Sterling DCIs, respectively) may be deferred as described in "Terms and Conditions of the Euro DCIs — 4. Coupon Deferral" and "Terms and Conditions of the Sterling DCIs — 4. Coupon Deferral", respectively. Payments in respect of the DCIs will be made without deduction for, or on account of, taxes of the United Kingdom, unless such deduction is required by law. In the event that any such deduction is made, the DCIs will be subject to grossing up by the Issuer, subject to certain exceptions as are more fully described under "Terms and Conditions of the Euro DCIs — 10. Taxation" and "Terms and Conditions of the Sterling DCIs — 10. Taxation", respectively.

Subject to giving prior written notice to, and receiving no objection from, the Financial Services Authority (the "FSA"), the DCIs will be redeemable (at the option of the Issuer) in whole but not in part at their principal amount on 28 November 2014, in the case of the Euro DCIs, and 27 July 2020, in the case of the Sterling DCIs, or, in each case, on any Coupon Payment Date thereafter. In addition, upon the occurrence of a Par Tax Event, Other Tax Event or a Capital Disqualification Event (each as defined in the Terms and Conditions of the Euro DCIs and Terms and Conditions of the Sterling DCIs, respectively), the DCIs may be (i) substituted for, or their terms varied so that they become, Qualifying Tier 1 Securities (as defined in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively) or so that they become, Qualifying Upper Tier 2 Securities (as defined in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively), or (ii) redeemed, at the amounts specified and as otherwise more particularly described in "Terms and Conditions of the Euro DCIs — 7. Redemption, Substitution, Variation or Purchase" and "Terms and Conditions of the Sterling DCIs — 7. Redemption, Substitution, Variation or Purchase", respectively.

The DCIs will be unsecured securities of the Issuer and will be subordinated to the claims of Senior Creditors (as defined in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively). Upon the occurrence of a Substitution Event (as defined in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively) the DCIs may, at the option of the Issuer be substituted by Substituted Preference Shares (as defined and more fully described in the "Terms and Conditions of the Euro DCIs — 7. Redemption, Substitution, Variation or Purchase" and the "Terms and Conditions of the Sterling DCIs — 7. Redemption, Substitution, Variation or Purchase", respectively).

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

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

Each Tranche of the DCIs will initially be represented by a temporary global DCI (each, a "Temporary Global DCI"), without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 25 November 2004 (the "Closing Date"). Each Temporary Global DCI will be exchangeable for interests in a permanent global DCI (each, a "Permanent Global DCI"), without interest coupons or talons, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. Each Permanent Global DCI will be exchangeable for definitive DCIs only in certain limited circumstances, as described under "Summary of Provisions Relating to the DCIs while in Global Form".

*Joint Bookrunners*

**ABN AMRO**

**GOLDMAN SACHS INTERNATIONAL**

**BARCLAYS CAPITAL**

**LEHMAN BROTHERS**

*(Structuring Adviser)*

*Co-Managers*

**CITIGROUP**

**HSBC**

**THE ROYAL BANK OF SCOTLAND**

23 November 2004

The Issuer accepts responsibility for all the information contained and incorporated by reference in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained and incorporated by reference 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 “Aviva” and the “Issuer” are to Aviva plc, and references to the “Aviva Group” or the “Group” are to Aviva plc and its subsidiaries. Unless expressly indicated otherwise, and apart from references to “DCIs” and “DCI Holders” in the terms and conditions of each Tranche of DCIs and in “Summary of Provisions Relating to the DCIs while in Global Form” (where references to the “DCIs” means the DCIs of the relevant Tranche and “DCI Holders” means holders of the DCIs of the relevant Tranche), the Euro DCIs and the Sterling DCIs are together referred to herein as the “DCIs”, and each a “Tranche”, and the Euro DCI Holders and the Sterling DCI Holders are together referred herein as the “DCI Holders”.

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

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular should purchase any of the DCIs. Each investor contemplating purchasing DCIs should make its own independent investigation of the financial consideration and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Circular may only be used for the purposes for which it has been published.

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 DCIs and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers. 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 DCIs.

The distribution of this Offering Circular and the offering of the DCIs 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 DCIs 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, no action has been taken by the Issuer or any of the Managers which would permit a public offering of the DCIs or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the DCIs 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. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about, and to observe, any applicable restrictions. For a description of certain further restrictions on the offering, sale and delivery of the DCIs and on the distribution of this Offering Circular, see “Subscription and Sale” below.

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

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to “pounds sterling”, “sterling” and “£” are to the currency of the United Kingdom of Great Britain and

Northern Ireland (the “United Kingdom” or “UK”) and all references to “€” and “euro” are to the single currency which was 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 and the Treaty of Amsterdam).

IN CONNECTION WITH THESE ISSUES, LEHMAN BROTHERS INTERNATIONAL (EUROPE) OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE EURO DCIs AND STERLING DCIs AT A LEVEL HIGHER THAN THAT WHICH WOULD OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE IS NO OBLIGATION ON LEHMAN BROTHERS INTERNATIONAL (EUROPE) OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

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## **INCORPORATION BY REFERENCE**

The audited consolidated accounts, the audited non-consolidated balance sheet (modified statutory basis) and the supplementary summarised consolidated financial information (achieved profit basis) of the Issuer which are contained in the Annual Report of the Issuer for the year ended 31 December 2003, the unaudited interim consolidated accounts (achieved profit basis and modified statutory basis) of the Issuer for the six months ended 30 June 2004 and the financial information for the nine months ended 30 September 2004 relating to the Issuer's worldwide long-term savings new business (as published on 29 October 2004) are incorporated by reference in this Offering Circular. Copies of those documents are available free of charge at the specified office of each of the Paying Agents as described in "General Information" below.

## **FORWARD-LOOKING STATEMENTS**

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

## SUMMARY

*The following summary refers to certain provisions of the Terms and Conditions of the DCIs and is qualified by the more detailed information contained elsewhere in this Offering Circular. Defined terms used herein have the meaning given to them in “Terms and Conditions of the Euro DCIs” and “Terms and Conditions of the Sterling DCIs”, as appropriate.*

<b>Issuer</b>	Aviva plc.
<b>Trustee</b>	The Law Debenture Trust Corporation p.l.c.
<b>Issue Size</b>	€700,000,000 of Euro DCIs. £500,000,000 of Sterling DCIs.
<b>Maturity</b>	The DCIs will be perpetual.
<b>Coupons</b>	<p>The Euro DCIs will bear interest at a rate of 4.7291 per cent. per annum payable annually in arrear from (and including) 25 November 2004 to (but excluding) 28 November 2014, and thereafter at a rate, reset and payable quarterly in arrear, of 1.77 per cent. per annum above the then prevailing offered rate for three-month euro deposits.</p> <p>The Sterling DCIs will bear interest at a rate of 5.9021 per cent. per annum payable annually in arrear from (and including) 25 November 2004 to (but excluding) 27 July 2020, and thereafter at a rate, reset and payable semi-annually in arrear, of 1.88 per cent. per annum above the then prevailing offered rate for six-month sterling deposits.</p>
<b>Coupon Payment Dates</b>	<p>Except as described below, Coupons in respect of the Euro DCIs will be payable on 28 November in each year, commencing on 28 November 2005, in respect of the period from (and including) 25 November 2004 to (but excluding) 28 November 2005, and ending on 28 November 2014; thereafter, Coupons in respect of the Euro DCIs will be payable (subject to adjustment for days which are not TARGET Business Days) on 28 February, 28 May, 28 August and 28 November in each year, commencing on 28 February 2015.</p> <p>Except as described below, Coupons in respect of the Sterling DCIs will be payable on 27 July in each year, commencing on 27 July 2005, in respect of the period from (and including) 25 November 2004 to (but excluding) 27 July 2005, and ending on 27 July 2020; thereafter, Coupons in respect of the Sterling DCIs will be payable (subject to adjustment for days which are not Business Days) on 27 January and 27 July in each year, commencing on 27 January 2021.</p>
<b>Ranking and Solvency Condition to Payment</b>	The rights and claims of the DCI Holders will be subordinated to the claims of Senior Creditors, in that payments in respect of the DCIs are conditional upon the Issuer being solvent at the time of payment and in that no payments shall be due except to the extent the Issuer could make such payments and still be solvent immediately thereafter.

Upon any winding-up of the Issuer, the holder of each DCI will, for the purpose of calculating the amounts payable in respect of each DCI, rank:

- (i) *pari passu* with the most senior class or classes of preference shares with non-cumulative dividends in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up of the Issuer over the shares referred to in (ii) below;
- (ii) senior to the holders of all other classes of issued shares for the time being in the capital of the Issuer other than Priority Preference Shares; and
- (iii) junior to the claims of Senior Creditors of the Issuer and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up of the Issuer is determined.

The sole remedy against the Issuer available to the Trustee or any DCI Holder for recovery of amounts owing in respect of any sum due in respect of the Issuer will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up. The DCI Holder's claim in any winding-up of the Issuer shall be for the principal amount of the relevant DCIs together with sums in respect of any accrued but unpaid Coupons and any Deferred Coupons.

#### **Interest Deferral**

On any Coupon Payment Date, the Issuer shall have the option to defer Coupon Payments on the DCIs.

Deferred Coupons, if any, shall be satisfied only on the date upon which the DCIs are (i) redeemed (see “– Optional Redemption”, “– Par Tax Event/Other Tax Event” and “– Capital Disqualification Event”, below); (ii) substituted by Substituted Preference Shares (see “– Substitution Event”, below); or (iii) substituted by, or varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities following a Par Tax Event, Other Tax Event or Capital Disqualification Event (see “– Par Tax Event/Other Tax Event” and “– Capital Disqualification Event”, below). Except as provided in Condition 8(d), Deferred Coupons may only be satisfied by means of the Alternative Coupon Satisfaction Mechanism (see “– Alternative Coupon Satisfaction Mechanism”, below). Except in the limited circumstances provided in Condition 6(e), no interest will accrue on any Deferred Coupons.

#### **Limitation on Dividend and Capital Payments**

The Issuer will undertake that, in the event that any Coupon Payment is deferred, it will not:

- (i) declare or pay any distribution or dividend or make any other payment on, and will procure that no

distribution or dividend or other payment is made on, any Junior Share Capital; or

- (ii) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Parity Securities,

in each case unless or until the Coupon Payments due and payable on any subsequent Coupon Payment Date (or, if this provision applies after the First Reset Date, any four (in the case of the Euro DCIs) or two (in the case of the Sterling DCIs) subsequent consecutive Coupon Payment Dates) on all outstanding DCIs have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the DCI Holders and in a manner satisfactory to the Trustee).

**Alternative Coupon Satisfaction Mechanism (“ACSM”)**

If the Issuer defers a Coupon Payment, it must (except as provided in Condition 8(d)) satisfy its obligation to pay the relevant Deferred Coupon by operation of the ACSM. The Issuer shall issue Ordinary Shares (“Payment Ordinary Shares”) to the Trustee or its agent. Such issue shall satisfy in full the Issuer's obligation to pay the relevant Deferred Coupon. The Trustee or its agent shall procure the sale of such Payment Ordinary Shares and the proceeds thereof (in the case of the Euro DCIs, converted into euros at then prevailing market rates) will provide a cash amount which the Paying Agent, on behalf of the Trustee, will pay in respect of the relevant Deferred Coupon.

The number of Payment Ordinary Shares required to be issued will be such number of Ordinary Shares as, in the determination of the Calculation Agent, have a market value as near as practicable to, but not less than, the relevant Deferred Coupons. The Trustee will use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent and the Calculation Agent will use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If the proceeds of the sale of the Payment Ordinary Shares (in the case of the Euro DCIs, after conversion into euros as described above) will not in the opinion of the Calculation Agent result in a sum at least equal to the relevant Deferred Coupons being available to make the necessary payment in full, the Issuer, the Trustee and the Calculation Agent will take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Payment Ordinary Shares and following, *mutatis mutandis*, the procedures described above, a sum as near as practicable to, and at least equal to, the relevant Deferred Coupons will be available to make the relevant Deferred Coupon Payment in full on the relevant due date.

In addition, any Accrued Coupon Payment which is to be satisfied on substitution of the DCIs for Substituted Preference Shares in accordance with Condition 7(e)(ii) and/or which accrues pursuant to Condition 6(e) must be



satisfied by operation, *mutatis mutandis*, of the ACSM as described herein.

### **Market Disruption Event**

If, in the opinion of the Issuer, a Market Disruption Event exists on or after the 15th Business Day preceding any date upon which the Issuer is due to satisfy a payment using the ACSM, such payment to DCI Holders may be deferred until the Market Disruption Event no longer exists. Any such deferred payments shall bear interest at the rate applicable to the DCIs if the Market Disruption Event continues for 14 days or more and such interest shall itself be satisfied by operation of the ACSM.

### **Insufficiency**

The Issuer shall not be entitled to exercise its option to redeem, substitute or vary any of the DCIs as described herein unless it has available for, and the Directors have the corresponding authority to, issue a sufficient number of Ordinary Shares to be able to satisfy its obligation to pay the relevant Deferred Coupon and any other ACSM Payment by operation of the ACSM. In connection therewith, the Issuer will undertake to use all reasonable endeavours to obtain and maintain all corporate authorisations required for the issue and allotment of such number of Ordinary Shares as it reasonably considers would be required to be issued in order to enable the Issuer to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and, prior to the First Reset Date, the aggregate of Coupon Payments due on the next Coupon Payment Date and, after the First Reset Date, on the next four (in the case of the Euro DCIs) or two (in the case of the Sterling DCIs) Coupon Payments.

### **Suspension**

If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the company which, immediately prior to such event was the Ultimate Owner of the Aviva group of companies, ceases to be the Ultimate Owner, then, unless a Permitted Restructuring Arrangement shall be put in place, such amendments to the documentation relating to the DCIs as determined by an independent investment bank (selected by the Issuer and approved by the Trustee) to be appropriate in order to (a) preserve substantially the economic effect, for the DCI Holders, of a holding of the DCIs prior to the Suspension and (b) replicate the ACSM in the context of the capital structure of the new Ultimate Owner, will be made by the Issuer and the Trustee, and pending such amendments, the Issuer will be unable to satisfy payments using the ACSM. If the investment bank is unable to determine appropriate amendments, as notified to the Issuer and the Trustee, then the DCIs shall either (in each case subject to the Issuer receiving no objection from the FSA):

- (i) be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or

- (ii) be redeemed at their Make Whole Redemption Price if the redemption occurs prior to 28 November 2014, in the case of the Euro DCIs, and 27 July 2020, in the case of the Sterling DCIs, and at their principal amount if the redemption occurs on or after such dates, in each case together with all Outstanding Payments.

In connection with (i) above, the Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities will preserve the rights to all accrued but unpaid Coupons on the DCIs and all Deferred Coupon Payments (if any) on the DCIs will be satisfied in the manner described in Condition 8(d). In connection with (ii) above, such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay such redemption amount in accordance, *mutatis mutandis*, with the ACSM.

**Optional Redemption**

Subject to giving prior written notice to, and receiving no objection from, the FSA, the DCIs will be redeemable on 28 November 2014, in the case of the Euro DCIs, or 27 July 2020, in the case of the Sterling DCIs or on any Coupon Payment Date thereafter in whole, but not in part, at the option of the Issuer at a price equal to their principal amount together with (i) all accrued but unpaid interest and (ii) (by operation of the ACSM) all Deferred Coupons (if any).

**Par Tax Event/Other Tax Event**

Upon the occurrence of a Par Tax Event or Other Tax Event, the Issuer may subject to giving prior written notice to, and receiving no objection from, the FSA:

- (1) redeem at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date, all, but not some only, of the DCIs (I) (in the case of a Par Tax Event) at their principal amount, (II) (in the case of an Other Tax Event occurring prior to the First Reset Date) at their Make Whole Redemption Price and (III) (in the case of an Other Tax Event occurring on or after the First Reset Date) at their principal amount, together, in each case, with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of the ACSM); or
- (2) substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities. In connection therewith, the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities will preserve the rights to all accrued but unpaid Coupons on the DCIs and all Deferred Coupon Payments (if any) on the DCIs will be satisfied by the operation of the ACSM.

“Par Tax Event” means:

- (i) if, as a result of a Tax Law Change, in making any payments on the DCIs, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the DCIs and the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it; or
- (ii) if, as a result of a Tax Law Change in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (a) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (b) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); or (c) the Issuer would otherwise suffer adverse tax consequences, and in each such case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it.

“Other Tax Event” means if, other than as a result of a Tax Law Change, in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (w) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom or such entitlement is materially reduced; (x) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); (y) the Issuer would otherwise suffer adverse tax consequences; or (z) the Issuer has paid, or would on the next date on which it is due to make a payment under those Conditions be required to pay, Additional Amounts on the DCI, and in each such case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it.

**Withholding Tax and Additional Amounts**

The Issuer will pay such Additional Amounts as may be necessary in order that the net payment received by each DCI Holder in respect of the DCIs, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the DCIs, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions (see also “– Par Tax Event/Other Tax Event”, above).

### **Capital Disqualification Event**

If at any time a Capital Disqualification Event occurs and is continuing, the Issuer may, subject to giving prior written notice to, and receiving no objection from, the FSA:

- (1) redeem all, but not some only, of the DCIs at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date. The DCIs will be redeemed at their Make Whole Redemption Price (in the case of any redemption prior to the First Reset Date) or on or after the First Reset Date at their principal amount, in each case together with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of the ASCM); or
- (2) substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities. In connection therewith, the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities will preserve the rights to all accrued but unpaid Coupons on the DCIs and all Deferred Coupon Payments (if any) on the DCIs will be satisfied by the operation of the ASCM.

A “Capital Disqualification Event” is deemed to have occurred (1) if under the Directive or the Relevant Rules, or as a result of any change thereto, the DCI would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as cover for the minimum capital resources requirement applicable to the Issuer under the Directive or the Relevant Rules; or (2) if, at any time the Issuer or the Group is required under the Directive or the Relevant Rules to have Tier 1 Capital, the DCIs would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis; or (3) if at any time the Issuer or the Group is required under the Directive and the Relevant Rules to have Tier 1 Capital and the Issuer would be entitled pursuant to Condition 7(e) to substitute the DCIs by Substituted Preference Shares, such Substituted Preference Shares would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis.

### **Substitution Event**

At any time a Substitution Event has occurred and is continuing, the Issuer may cause the substitution of all (but not some only) of the DCIs for fully paid non-cumulative preference shares issued directly by the Issuer (the “Substituted Preference Shares”) (such substitution being referred to herein as a “Preference Share Substitution”). The terms of the Substituted Preference Shares shall provide that (a) the Substituted Preference Shares may only be redeemed on 28 November 2014, in the case of the Euro DCIs (being the same date as the First Reset Date of the Euro DCIs), and 27 July 2020, in the case of the Sterling DCIs (being the same date as the First Reset Date of the Sterling DCIs), or in

each case on any dividend payment date thereafter (save as set out in Condition 7(e)); (b) that the Issuer has the right to choose whether or not to pay any dividend; and (c) that any dividend payable shall be non-cumulative (and accordingly there shall be no provision analogous to the ACSM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the DCIs and the Coupons taken together. At the time of such substitution, Deferred Coupons will be settled by operation of the ACSM. Accrued interest will also be settled by operation *mutatis mutandis* of the ACSM.

“Substitution Event” means the occurrence of a breach by the Issuer or the Group or any member of the Group of the United Kingdom capital adequacy requirements, guidelines or measures or any other regulatory capital requirements, guidelines or measures applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be).

The Issuer will undertake to propose resolutions at its next Annual General Meeting to obtain the authority to increase its authorised share capital to a level sufficient to issue the Substituted Preference Shares and the authority for the Directors to allot and issue sufficient Substituted Preference Shares.

**Listing**

Application has been made for the DCIs to be listed on the Luxembourg Stock Exchange.

**Governing Law**

The DCIs will be governed by, and construed in accordance with, English law.

**Form**

Bearer. Each Tranche of the DCIs will be represented initially by a Temporary Global DCI which will be deposited with a common depository for Clearstream, Luxembourg and Euroclear on or about 25 November 2004. The Temporary Global DCIs will each be exchangeable for interests in a Permanent Global DCI without interest coupons or talons on or after a date which is expected to be 10 January 2005 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global DCIs. Save in limited circumstances, DCIs in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global DCIs.

**Investment Considerations**

Prospective investors should carefully consider the information under “Investment Considerations” in conjunction with the other information contained or incorporated by reference in this document.

## INVESTMENT CONSIDERATIONS

*Prospective investors should carefully consider the following information in conjunction with the other information contained in this document. Capitalised terms used but not defined below shall bear the respective meanings ascribed thereto under “Terms and Conditions of the Euro DCIs” and “Terms and Conditions of the Sterling DCIs”, as appropriate.*

### **Deferral of Coupon Payments**

The Issuer may elect to defer any Coupon Payment on the DCIs. If the Issuer does defer a Coupon Payment (whether pursuant to the general right to defer a Coupon Payment under Condition 4 or by virtue of failing to satisfy the condition to payment set out in Condition 2(b)(i)), such Deferred Coupon Payment will be satisfied only on (i) the date on which the DCIs are redeemed; (ii) the date on which the DCIs are substituted by Substituted Preference Shares, as more particularly described in “Terms and Conditions of the Euro DCIs – 7. Redemption, Substitution, Variation or Purchase” and “Terms and Conditions of the Sterling DCIs – 7. Redemption, Substitution, Variation or Purchase”, respectively; or (iii) the date on which the DCIs are substituted by alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities following a Par Tax Event, Other Tax Event, Capital Disqualification Event or (in the circumstances provided in Condition 8(d)) Suspension. Deferred Coupons may only (except following a Suspension and in the circumstances otherwise provided in Condition 8(d)) be satisfied by means of the Alternative Coupon Satisfaction Mechanism and the operation of such mechanism is subject to certain conditions (more particularly described in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively).

Except in the limited circumstances provided in Condition 6(e), no Deferred Coupon Payment will bear interest.

### **Perpetual securities**

The Issuer is under no obligation to redeem the DCIs at any time and the DCI Holders have no right to call for their redemption.

### **Redemption and Exchange risk**

The DCIs may, subject as provided in Condition 7, be redeemed at their principal amount together with any Outstanding Payments at the option of the Issuer on 28 November 2014, in the case of the Euro DCIs, and 27 July 2020, in the case of the Sterling DCIs, or (in each case) on any Coupon Payment Date thereafter. In addition, upon the occurrence of a Par Tax Event, Other Tax Event or a Capital Disqualification Event the relevant DCIs may be (i) substituted for, or their terms varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or (ii) redeemed at their outstanding principal amount or, in the case of a Capital Disqualification Event or an Other Tax Event in each case in respect of which the relevant redemption occurs prior to 28 November 2014, in the case of the Euro DCIs, and 27 July 2020, in the case of the Sterling DCIs, the Make Whole Redemption Price, together in each case with any Outstanding Payments, all as more particularly described in “Terms and Conditions of the Euro DCIs – 7. Redemption, Substitution, Variation or Purchase” and “Terms and Conditions of the Sterling DCIs – 7. Redemption, Substitution, Variation or Purchase”, respectively.

Furthermore, upon the occurrence and continuation of a Substitution Event, the Issuer may, subject as provided in Condition 7, substitute the relevant DCIs by Substituted Preference Shares, all as more particularly described in “Terms and Conditions of the Euro DCIs – 7. Redemption, Substitution, Variation or Purchase – (e) Substitution for Substituted Preference Shares” and “Terms and Conditions of the Sterling DCIs – 7. Redemption, Substitution, Variation or Purchase – (e) Substitution for Substituted Preference Shares”, respectively; in connection with such Preference Share Substitution, DCI Holders will be required to complete a Substitution Confirmation prior to being able to receive Substituted Preference Shares.

### **No limitation on issuing senior or *pari passu* securities; subordination**

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the DCIs. The issue of any such securities may reduce the amount recoverable by DCI Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of Payments under the DCIs. In particular, the DCIs shall rank junior to the claims of Senior Creditors (including those of holders of the Priority Preference Shares) of the Issuer and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up of the Issuer is determined. **Accordingly, in the winding-up of the Issuer and after payment of the Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the DCI Holders.**

### **Availability of shares**

If the Issuer does not have available a sufficient number of Ordinary Shares which may be allotted free from pre-emption rights, then the Issuer will not be able to operate the ACSM and therefore will not be able to redeem, substitute or vary the DCIs, all as more particularly described in “Terms and Conditions of the Euro DCIs — 6. Alternative Coupon Satisfaction Mechanism — (d) Insufficiency” and “Terms and Conditions of the Sterling DCIs — 6. Alternative Coupon Satisfaction Mechanism — (d) Insufficiency”, respectively.

No DCIs may be redeemed unless all Outstanding Payments are satisfied at the same time. Accordingly, if the Issuer does not have a sufficient number of Ordinary Shares available in connection with the satisfaction of all ACSM Payments on redemption, the Issuer may not redeem any DCIs until such time as all ACSM Payments are satisfied at the same time.

### **Restricted remedy for non-payment**

In accordance with FSA requirements for subordinated capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions of the Euro DCIs and the Terms and Conditions of the Sterling DCIs, respectively) any DCI Holder for recovery of amounts owing in respect of the DCIs and Coupons will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up.

### **Absence of prior public markets**

Each Tranche of DCIs constitutes a new issue of securities by the Issuer. Prior to each such issue, there will have been no public market for each Tranche of DCIs. Although applications have been made for each Tranche of the DCIs to be listed on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the DCIs will develop and, if such a market were to develop, none of the Managers nor any other person is under any obligation to maintain such a market. The liquidity and the market prices for the DCIs can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Group and other factors that generally influence the market prices of securities.

## TERMS AND CONDITIONS OF THE EURO DCIs

*The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the DCIs which will be endorsed on each DCI in definitive form (if issued).*

The €700,000,000 4.7291 per cent. Fixed/Floating Rate Direct Capital Instruments (the “DCIs”, which expression shall in these Conditions, unless the context otherwise requires, include any further instruments issued pursuant to Condition 16 and forming a single series with the DCIs) of Aviva plc (the “Issuer”) are constituted by a trust deed (the “Trust Deed”) dated 25 November 2004 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 DCIs (the “DCI Holders”). The issue of the DCIs was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 27 October 2004 and resolutions of a duly authorised committee of the Board of Directors passed on 18 November 2004. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed; (ii) the paying agency agreement (the “Paying Agency Agreement”) dated 25 November 2004 made between the Issuer, HSBC Bank plc as principal paying agent (the “Principal Paying Agent”, which expression shall include any successor thereto) and the other paying agents named therein and any successors thereto (together with the Principal Paying Agent, the “Paying Agents”), HSBC Bank plc as agent bank (the “Agent Bank”, which expression shall include any successor thereto) and the Trustee; and (iii) the calculation agency agreement (the “Calculation Agency Agreement”) dated 25 November 2004 made between the Issuer, the Trustee and Lehman Brothers International (Europe) as calculation agent (the “Calculation Agent”, which expression shall include any successor thereto) are available for inspection during normal business hours by the DCI Holders and the holders of the interest coupons (the “Coupons”, which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the “Talons”) appertaining to DCIs in definitive form (the “Couponholders”) at the registered office of the Trustee, being at the date hereof at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The DCI Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Paying Agency Agreement and the Calculation Agency Agreement applicable to them.

### **1. Form, Denomination and Title**

#### **(a) Form and Denomination**

The DCIs are serially numbered and in bearer form in the denominations of €1,000, €10,000 and €100,000 (each an “Authorised Denomination”) each with Coupons and one Talon attached on issue. DCIs of one Authorised Denomination may not be exchanged for DCIs of another Authorised Denomination.

#### **(b) Title**

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

### **2. Status and Subordination**

#### **(a) Status**

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



**(b) Subordination**

**(i) Condition to Payment**

The rights and claims of the DCI Holders and the Couponholders are subordinated to the claims of all Senior Creditors, in that payments in respect of the DCIs (including Coupons payable in cash or by way of the issue of Ordinary Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Ordinary Shares) and in that no principal, premium or interest shall be due and payable in respect of the DCIs (including Coupons payable in cash or by way of the issue of Ordinary Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter, in each case except in the winding-up of the Issuer.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A certificate as to the solvency of the Issuer by two Directors shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the DCI Holders, the Couponholders and all other interested parties as correct and sufficient evidence thereof.

**(ii) Solvency Claims**

Without prejudice to the rest of these Conditions, amounts representing any payments of principal, premium or interest in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable (“Solvency Claims”) will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3. A Solvency Claim shall not bear interest.

**(iii) Set-off**

Subject to applicable law, no DCI Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the DCIs or the Coupons and each DCI Holder and Couponholder shall, by virtue of his holding of any DCI or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any DCI Holder by the Issuer under or in connection with the DCIs is discharged by set-off, such DCI Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up, the liquidator of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

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

**3. Winding-up**

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except in any such case, a solvent winding-up solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (a) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (b) do not provide that the DCIs shall thereby become payable), there shall be payable by the Issuer in respect of each DCI (in lieu of any other payment

by the Issuer), such amount, if any, as would have been payable to the holder of such DCI if, on the day prior to the commencement of the winding-up and thereafter, such DCI Holder were the holder of one of a class of preference shares in the capital of the Issuer (“Notional Preference Shares”) having an equal right to a return of assets in the winding-up to, and so ranking *pari passu* with, the holders of the most senior class or classes of preference shares with non-cumulative dividends in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer other than the Priority Preference Shares, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up of the Issuer is determined on the assumption that the amount that such DCI Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up, were an amount equal to the principal amount of the relevant DCI and any other Payments which are Outstanding thereon together with, to the extent not otherwise included within the foregoing, its *pro rata* share of any Solvency Claims attributable to the DCI.

*On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the DCI Holders after the claims of the parties ranking senior to the DCI Holders (as provided in Condition 3) have been satisfied.*

#### **4. Coupon Deferral**

The Issuer may elect to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date by giving notice of such election to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent not less than 20 Business Days prior to the relevant Coupon Payment Date. The Issuer shall (except where Condition 3 applies) satisfy any such Deferred Coupon Payment or any Deferred Coupon Payment which arises as a result of the failure to satisfy the condition to payment set out in Condition 2(b)(i) only by operation of the procedures set out in Condition 6 and, subject to Condition 8(d), only upon the occurrence of the first of the following to occur: (i) redemption of the DCIs in accordance with Condition 7(b); (ii) redemption, substitution or variation of the DCIs in accordance with Condition 7(c); (iii) redemption, substitution or variation of the DCIs in accordance with Condition 7(d); or (iv) substitution of the DCIs by Substituted Preference Shares pursuant to Condition 7(e).

If, on any Coupon Payment Date, payment of all Coupon Payments scheduled to be paid on such date is not made in full, the Issuer shall not, (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital, or (b) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Parity Securities, in each case unless or until the Coupon Payments due and payable on any subsequent Coupon Payment Date (or, if this provision applies after the First Reset Date, any four subsequent consecutive Coupon Payment Dates) on all outstanding DCIs have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the DCI Holders and in a manner satisfactory to the Trustee).

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Coupon Payment by virtue of this Condition 4 or Condition 2(b)(i) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Coupon Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

#### **5. Coupon Payments**

##### **(a) Coupon Rate**

The DCIs bear interest at the applicable Coupon Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 2(b)(i), 2(b)(ii), 4, 6(a), 6(d), 6(e) and 8(d), during the Fixed Rate Coupon Period interest shall be payable on the DCIs in arrear on the first Coupon Payment Date and thereafter annually in arrear on each subsequent Coupon Payment Date in the Fixed Rate Coupon Period, and

thereafter interest shall be payable on the DCIs quarterly in arrear on each Coupon Payment Date, in each case as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any DCI during the Fixed Rate Coupon Period for a period which is less than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Coupon Payment Date. Where it is necessary to compute an amount of interest in respect of any DCI for a period of more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Interest shall accrue on the DCIs in respect of all Coupon Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the First Reset Date on the basis of the actual number of days elapsed in the relevant period divided by 360.

**(b) Interest Accrual**

The DCIs will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 7(b), the date of redemption, substitution or variation thereof pursuant to Condition 7(c) or 7(d) or the date of substitution thereof pursuant to Condition 7(e), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the DCIs is not properly and duly made, in which event interest shall continue to accrue, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

**(c) Fixed Coupon Rate**

For the Fixed Rate Coupon Period, the DCIs bear interest at the rate of 4.7291 per cent. per annum (the "Fixed Coupon Rate").

**(d) Floating Coupon Rate**

From (and including) the First Reset Date, the DCIs will bear interest at a floating rate of interest (the "Floating Coupon Rate"). The Floating Coupon Rate in respect of each Coupon Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Coupon Determination Date the Agent Bank will determine the offered rate (expressed as a rate per annum) for three-month euro deposits as at 11.00 a.m. (Central European time) on such Coupon Determination Date, as displayed on the display designated as page "248" on the Moneyline Telerate Monitor (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Coupon Rate for the Coupon Period immediately succeeding the Coupon Determination Date shall be such offered rate as determined by the Agent Bank plus the Margin.
- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal Euro-zone office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the Euro-zone inter bank market for three-month euro deposits as at 11.00 a.m. (Central European time) on the Coupon Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Coupon Rate for the Coupon Period immediately succeeding the relevant Coupon Determination Date shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded upwards if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.

(iii) If on any Coupon Determination Date to which the provisions of sub-paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Coupon Rate for the Coupon Period immediately succeeding such Coupon Determination Date shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded upwards, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in the Euro-zone selected by the Agent Bank are quoting, on the relevant Coupon Determination Date, to leading European banks for a period of three months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Coupon Rate for such Coupon Period shall be either (1) the Floating Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding sub-paragraphs of this Condition 5(d) shall have applied or (2) if none, 5.7291 per cent. per annum.

**(e) *Determination of Floating Coupon Rate and Calculation of Floating Coupon Amounts***

The Agent Bank will, as soon as practicable after 11.00 a.m. (Central European time) on each Coupon Determination Date, determine the Floating Coupon Rate in respect of the relevant Coupon Period and calculate the amount of interest payable in respect of a DCI of each Authorised Denomination on the Coupon Payment Date for the relevant Coupon Period (the “Floating Coupon Amounts”) by applying the Floating Coupon Rate for such Coupon Period to the principal amount of a DCI of each Authorised Denomination, multiplying such sum by the actual number of days in the Coupon Period concerned divided by 360 and, if necessary, rounding the resultant figure to the nearest €0.01 (€0.005 being rounded upwards).

**(f) *Publication of Floating Coupon Rate and Floating Coupon Amounts***

The Issuer shall cause notice of the Floating Coupon Rate determined in accordance with this Condition 5 in respect of each relevant Coupon Period and of the Floating Coupon Amounts and the relevant Coupon Payment Date to be given to the Trustee, the Paying Agents and, in accordance with Condition 15, the DCI Holders, in each case as soon as practicable after its determination but in any event not later than the fourth business day thereafter. The Issuer shall cause notice of the same to be given to any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading as soon as practicable after its determination but in any event not later than the first day of the relevant Coupon Period. As used in this Condition 5(f), “business day” means a day (not being a Saturday, Sunday or public holiday) on which banks are open for business in London.

The Floating Coupon Amounts, the Floating Coupon Rate and the Coupon Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Coupon Period or in the event of proven or manifest error.

**(g) *Determination or Calculation by Trustee***

The Trustee (or an agent appointed by it) shall, if the Agent Bank does not at any relevant time for any reason determine the Floating Coupon Rate on the DCIs in accordance with this Condition 5, determine the Floating Coupon Rate in respect of the relevant Coupon Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 5), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Agent Bank.

**(h) *Agent Bank***

So long as any DCIs remain outstanding the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 5(g) above) fails duly to determine the Floating Coupon Rate in respect of any Coupon Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(i) *Determinations of Agent Bank or Trustee Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all DCI Holders and Couponholders and (in the absence as aforesaid) no liability to the DCI Holders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

**6. *Alternative Coupon Satisfaction Mechanism***

**(a) *Alternative Coupon Satisfaction Mechanism***

Each ACSM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d)) be satisfied by the Issuer in full only through the issue of Ordinary Shares to the Trustee or its agent in accordance with this Condition 6. The Issuer shall notify the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant ACSM Payment Date that an ACSM Payment is to be satisfied on such ACSM Payment Date. All other Payments due must, subject to Conditions 2 and 4, be satisfied in accordance with Condition 8(a).

**(b) *Issue of Shares***

If any ACSM Payment is to be satisfied through the issue of Ordinary Shares to the Trustee as required by the provisions of this Condition 6 then, subject to Conditions 6(d) and 6(e):

- (i) by close of business on or before the seventh Business Day prior to the relevant ACSM Payment Date, the Issuer will issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Ordinary Shares (the "Payment Ordinary Shares") as, in the determination of the Calculation Agent, will have a market value as near as practicable to, but not less than, the relevant ACSM Payment to be satisfied in accordance with this Condition 6; and
- (ii) the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the sixth Business Day prior to the relevant ACSM Payment Date and the Calculation Agent has agreed in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. The Calculation Agent has further agreed in the Calculation Agency Agreement to exchange, as agent of the Trustee, the proceeds of such sale into euro at prevailing market exchange rates and deliver such exchanged proceeds of such sale to, or hold such exchanged proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant ACSM Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

The Trustee shall not be liable to anyone for any loss occasioned by the transfer or sale of the Payment Ordinary Shares or the exchange of the proceeds of such sale as aforesaid, in each case by or on behalf of the Trustee, or any delay or failure in effecting such transfer or sale or exchange (as the case may be) under these Conditions.

If the proceeds (after exchange into euro as described above) of the sale of the Payment Ordinary Shares will not, in the opinion of the Calculation Agent, subject to Condition 6(d) and 6(e) but despite the arrangements contained in (ii) above, result in a sum at least equal to the relevant ACSM Payment being available to make the necessary ACSM Payment in full on its due date, the Issuer, the Trustee and the Calculation Agent have agreed to take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Ordinary Shares (also "Payment Ordinary Shares") and following, *mutatis mutandis*, the procedures contained in (i) and (ii) above, a sum as near as practicable to, and at least equal to, the relevant ACSM Payment will be available to make the relevant ACSM Payment in full on its due date.

**(c) *Issue Satisfies Payment***

Where the Issuer is required to make an ACSM Payment hereunder by issuing Payment Ordinary Shares to the Trustee and issues such Payment Ordinary Shares, such issue shall satisfy the relevant ACSM Payment or, as the case may be, in the circumstances referred to in Condition 6(d) below, the relevant part of such ACSM Payment, if made in accordance with this Condition 6. The proceeds of sale of Payment Ordinary Shares shall be paid by the Principal Paying Agent to the DCI Holders in respect of the relevant ACSM Payment.

**(d) *Insufficiency***

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), 7(c), 7(d) or 7(e) to redeem, substitute or vary any of the DCIs until such time as the Issuer has available for, and the Directors have the corresponding authority to, issue a sufficient number of Ordinary Shares as is required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any ACSM Payment required to be satisfied in connection with any such redemption, substitution or variation of the DCIs.

**(e) *Market Disruption***

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and (in accordance with Condition 15) the DCI Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant ACSM Payment may be deferred until such time as the Market Disruption Event no longer exists.

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

**(f) Listing**

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

**7. Redemption, Substitution, Variation or Purchase**

**(a) No Fixed Redemption Date**

The DCIs are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 11) only have the right to repay, substitute, vary or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

In addition, any redemption, substitution, variation or purchase of the DCIs is (i) subject to giving at least six months' prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given), (ii) (other than in the case of a Preference Share Substitution) subject to the Issuer being in compliance with the capital resources requirements applicable to it from time to time (and a certificate from any two Directors confirming such compliance shall be conclusive evidence of such compliance) and (iii) conditional on the terms of Condition 6(d) being satisfied prior thereto and all Deferred Coupon Payments (if any) and (in the case of Condition 7(e) only) Accrued Coupon Payments (if any) being satisfied in full by the operation of Condition 6 and the Trust Deed on or prior to the date thereof.

**(b) Issuer's Call Option**

Subject to Condition 7(a), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the DCIs on the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any Outstanding Payments (such redemption amounts to be payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6).

**(c) Redemption, Substitution or Variation Due to Taxation**

If immediately prior to the giving of the notice referred to below:

- (i) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the DCIs, which change or amendment (x) (subject to (y)) becomes, or would become, effective on or after 23 November 2004, or (y) in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by United Kingdom Act of Parliament or by Statutory Instrument, on or after 23 November 2004 (a "Tax Law Change"), in making any payments on the DCIs, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the DCIs and the Issuer

cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it; or

- (ii) as a result of a Tax Law Change in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (x) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (y) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); or (z) the Issuer would otherwise suffer adverse tax consequences, and in each such case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it; or
- (iii) other than as a result of a Tax Law Change, in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (w) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom or such entitlement is materially reduced; (x) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); (y) the Issuer would otherwise suffer adverse tax consequences; or (z) the Issuer has paid, or would on the next date on which it is due to make a payment under those Conditions be required to pay, Additional Amounts on the DCI pursuant to Condition 10, and in each such case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it,

then

- (aa) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date, all, but not some only, of the DCIs (I) (in the case of a Par Tax Event) at their principal amount, (II) (in the case of an Other Tax Event occurring prior to the First Reset Date) at their Make Whole Redemption Price and (III) (in the case of an Other Tax Event occurring on or after the First Reset Date) at their principal amount, together, in each case, with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6); or
- (bb) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the DCI Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (bb) and subject to the receipt by it of the certificates of the Directors of the Issuer referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon



it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the DCIs as provided above.

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

In connection with any substitution or variation in accordance with this Condition 7(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

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

If immediately prior to the giving of the notice referred to below a Capital Disqualification Event has occurred and is continuing, then:

- (i) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable), redeem in accordance with these Conditions all, but not some only, of the DCIs at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date. The DCIs will be redeemed at their Make Whole Redemption Price (in the case of any redemption prior to the First Reset Date) or on or after the First Reset Date at their principal amount, in each case together with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6); or
- (ii) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the DCI Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificates of the Directors of the Issuer referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the DCIs as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(d) the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate, and the Trustee shall accept such certificate as sufficient evidence of the occurrence and continuation of a Capital Disqualification Event in which event it shall be conclusive and binding on the DCI Holders.

Upon expiry of such notice the Issuer shall either redeem, vary or substitute the DCIs, as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(e) *Substitution for Substituted Preference Shares***

- (i) At any time a Substitution Event has occurred and is continuing, the Issuer may (subject to Condition 7(a)) give not less than 30 nor more than 60 days' notice thereof and of its intention to effect a Preference Share Substitution (as defined below) ("Substitution Notice") to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable), and shall on the expiry of such notice (the "Substitution Date") cause the substitution in accordance with this Condition of all (but not some only) of the DCIs for fully paid non-cumulative preference shares issued directly by the Issuer (the "Substituted Preference Shares") (such substitution being referred to herein as a "Preference Share Substitution"). The terms of the Substituted Preference Shares shall provide that (x) the Substituted Preference Shares may only be redeemed on 28 November 2014 (being the same date as the First Reset Date of the DCIs) or any dividend payment date thereafter (save for redemption, substitution or variation on terms analogous with the terms of Condition 7(d) and subject to the same conditions as those set out in the second paragraph of Condition 7(a)); (y) that the Issuer has the right to choose whether or not to pay any dividend; and (z) that any dividend payable shall be non-cumulative (and accordingly there shall be no provision analogous to the ACSM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the DCIs and the Coupons taken together (such terms to be as reasonably determined by the Issuer, and in connection therewith a certification signed by two Directors to the effect that the terms of the Substituted Preference Shares comply with the foregoing shall be delivered to the Trustee prior to the Issuer being able to effect such Preference Share Substitution).
- (ii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), all Deferred Coupon Payments and Accrued Coupon Payments (if any) will be satisfied on the Substitution Date by the operation of Condition 6.
- (iii) The Issuer shall enclose with the Substitution Notice a substitution confirmation (the "Substitution Confirmation") which each DCI Holder will be required to complete, and which shall require each DCI Holder to provide to the Issuer such information as the Issuer may reasonably require to be able to effect a Preference Share Substitution in accordance with this Condition 7(e). The form of such Substitution Confirmation shall also be made available at the offices of each Paying Agent. To receive Substituted Preference Shares in respect of its holding of DCIs, each DCI Holder must deliver to a Paying Agent a duly completed Substitution Confirmation together with all relevant DCIs held by it. Any such Preference Share Substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Certificates (if any) for Substituted Preference Shares issued on a Preference Share Substitution will be despatched by or on behalf of the Issuer by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month of the later of the Substitution Date and receipt of a duly completed Substitution Confirmation. DCI Holders will continue to be entitled to receive payments in respect of the DCIs until the Substitution Date (provided that the Substituted Preference Shares are available for issue as aforesaid from the Substitution Date and the Issuer makes the payment referred to in Condition 7(e)(ii)) and thereafter DCI Holders will have no further rights, title or interest in or to their DCIs except to

have them substituted in the manner described in this Condition 7(e). Each Substituted Preference Share allotted will rank for any dividend from the Substitution Date and will, without prejudice to Condition 7(e)(ii), have no entitlement to any Accrued Coupon Payment or any other payment on the DCIs.

- (iv) The Issuer will pay any taxes or capital duties or stamp duties payable in the United Kingdom arising on the allotment and issue of the Substituted Preference Shares. The Issuer will not be obliged to pay, and each DCI Holder delivering DCIs and a duly completed Substitution Confirmation to a Paying Agent must pay, any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant Preference Share Substitution. The Issuer will not be obliged to pay, and each DCI Holder must pay, all, if any, taxes arising by reference to any disposal or deemed disposal of a DCI in connection with such Preference Share Substitution. Substituted Preference Shares will not be allotted to Restricted Persons.
- (v) Prior to the publication of a Substitution Notice, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Substitution Event has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence and continuation of such Substitution Event in which event it shall be conclusive and binding on the DCI Holders.
- (vi) The Issuer undertakes to use all reasonable endeavours to (aa) create and, as of the date of its Annual General Meeting in 2005, maintain a sufficient number of authorised (but unissued) Substituted Preference Shares necessary to effect a Preference Share Substitution in accordance with this Condition 7(e) (including, but not limited to, the procurement of the necessary resolutions of the Issuer to increase the authorised share capital to a level sufficient to issue the Substituted Preference Shares); (bb) obtain, as of the date of its Annual General Meeting in 2005, the corporate authorisations necessary to effect the substitution of the DCIs for the Substituted Preference Shares (including, but not limited to, the procurement of the necessary resolutions of the Issuer to authorise the Directors to issue and allot the Substituted Preference Shares); and (cc) (provided that the Issuer has given the Substitution Notice) obtain and maintain a listing of the Substituted Preference Shares on a Recognised Stock Exchange.
- (vii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.
- (viii) The provisions of this Condition 7(e) (except for Condition 7(e)(ii) as regards satisfaction of Accrued Coupon Payments (if any)) will apply *mutatis mutandis* to Conditions 7(c) and 7(d) in the event that the Qualifying Tier 1 Securities for which the DCIs may be substituted in accordance with either of Conditions 7(c) or 7(d) comprise Substituted Preference Shares.

**(f) Purchases**

The Issuer or any Subsidiary may, subject to Condition 2(b)(i), at any time purchase DCIs in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons appertaining thereto. If purchases are made by tender, tenders must be made available to all DCI Holders alike.

**(g) Cancellation**

All DCIs so redeemed or substituted by the Issuer and any unmatured Coupons and Talons appertaining thereto will be cancelled and may not be reissued or resold. DCIs purchased by the Issuer or any Subsidiary may not be held, reissued, resold and, accordingly, will forthwith be surrendered to any Paying Agent for cancellation.

**(h) *Trustee Not Obligated to Monitor***

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to DCI Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

**8. *Payments***

**(a) *Method of Payment***

- (i) Payments of principal, premium and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of DCIs or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relevant DCIs. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by euro cheque drawn on, or by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (ii) Upon the due date for redemption of any DCIs, any unexchanged Talon relating to such DCIs (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such DCIs (whether or not attached) shall also become void and no payment shall be made in respect of them. If any DCI is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any DCIs, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

**(b) *Payments Subject to Fiscal Laws***

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the DCI Holders in respect of such payments.

**(c) *Payments on Business Days***

If the date for payment of any amount in respect of any DCI or Coupon, or any later date on which any DCI or Coupon is presented for payment, is not 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 Condition 8(c), “business day” means any day (not being a Saturday, Sunday or a public holiday) on which banks are open for business in the relevant place of payment and which is a TARGET Business Day.

**(d) *Suspension***

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the Issuer shall as soon as

practicable give notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent, whereupon the operation of the ACSM shall be suspended (such event being a “Suspension”). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank appointed by the Issuer (at the Issuer’s expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the DCIs for insurance regulatory capital and solvency purposes without giving at least six months’ prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given); and (iii) no such amendment may be made which would, in the Trustee’s opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order to (aa) preserve substantially the economic effect, for the DCI Holders, of a holding of the DCIs prior to the Suspension and (bb) replicate the ACSM in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the DCI Holders or Couponholders, effect any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer’s right to satisfy an ACSM Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and the DCIs shall (subject in each case to giving at least six months’ prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given) and with the prior agreement of the new Ultimate Owner) at the option of the Issuer either be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or shall be redeemed, in each case as described below.

If the DCIs are to be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable) and all (but not some only) of the DCIs will be substituted for, or the terms varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Directors of the Issuer referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the relevant investment bank referred to above) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights thereto are preserved for the purposes of the Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay the amount of such Deferred Coupon Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount (converted into euro if necessary) of not less than the amount of such Deferred Coupon Payments so payable by the Issuer). The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are

to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, elect to redeem the DCIs as provided in this Condition 8(d). In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

If the DCIs are to be redeemed by the Issuer, the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable and which shall expire as soon as practicable after confirmation of no objection from the Financial Services Authority) and all (but not some only) of the DCIs will be redeemed at (in the case of any redemption prior to the First Reset Date) their Make Whole Redemption Price or (on or after the First Reset Date) their principal amount, together in each case with any Outstanding Payments, not later than the 60th Business Day following the giving of such notice by the Issuer to the DCI Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount (converted into euro if necessary) of not less than the redemption amount so payable by the Issuer).

## **9. Non-Payment when Due**

*Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(b) no principal, premium or Payment will be due on the relevant Payment Date if the Issuer would not be solvent. Also, in the case of any Coupon Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Issuer shall not make payment in respect of the DCIs (in the case of payment of principal and/or premium) for a period of seven days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment, Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the DCIs and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b) institute proceedings for the winding-up of the Issuer.
- (b) Without prejudice to Condition 9(a) and subject as provided in Condition 18, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the DCIs or the Coupons (other than for the payment of any principal or premium or satisfaction of any Payments in respect of the DCIs or the Coupons, including any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the DCIs or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution of the DCI Holders or in writing by the

holders of at least one-quarter in principal amount of the DCIs then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

- (d) No DCI Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the DCI Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any DCI Holder or Couponholder (i) for the recovery of amounts owing in respect of the DCIs or the Coupons (including any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall), other than the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up of the Issuer and (ii) for the breach of any other term under the Trust Deed, the DCIs or the Coupons, other than as provided in Condition 9(b) above.

## **10. Taxation**

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

- (a) to, or to a third party on behalf of, a holder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such DCI or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such DCI or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a DCI Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant DCI or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the DCI Holder or Couponholder 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.

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

## 11. Prescription

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

## 12. Meetings of DCI Holders, Modification, Waiver and Substitution

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

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the DCIs for the time being outstanding, or at any adjourned meeting one or more persons being or representing DCI Holders whatever the principal amount of the DCIs so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Coupon Payments in respect of the DCIs and reducing or cancelling the principal amount of any DCIs, any applicable premium or the Coupon Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the DCIs for the time being outstanding. The agreement or approval of the DCI Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Conditions 7(c), 7(d) and 8(d) in connection with the substitution or variation of the DCIs so that they become Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be), and to which the Trustee has agreed pursuant to the relevant provisions of Conditions 7(c), 7(d) or 8(d), as the case may be.

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

The Trustee may agree (subject to the Trust Deed), without the consent of the DCI Holders or Couponholders, to any modification (except as set out above in relation to the higher quorum requirements at any meeting of DCI Holders) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any other provisions of the Trust Deed, the Paying Agency Agreement or the Calculation Agency Agreement which, in the opinion of the Trustee, is not materially prejudicial to the interests of the DCI Holders or to any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error. No modification to these Conditions or any other provisions of the Trust Deed or substitution as described below shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice).

The Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the DCI Holders or Couponholders, may agree with the Issuer, without the consent of the DCI Holders 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 DCIs and the Coupons provided that:

- (a) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the DCIs, the Coupons and the Talons, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the DCIs,



the Coupons and the Talons, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);

- (b) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed, the DCIs, the Coupons and the Talons are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee;
- (c) if the directors of the Substitute Obligor or other officers acceptable to the Trustee shall certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected, the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer;
- (d) (without prejudice to the rights of reliance of the Trustee under Condition 12(c)) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the DCI Holders;
- (e) (without prejudice to the generality of Condition 12(a)) the Trustee may in the event of such substitution agree, without the consent of the DCI Holders or Couponholders, to a change in the law governing the Trust Deed and/or the DCIs and/or the Coupons and/or the Talons, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the DCI Holders;
- (f) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "Substituted Territory") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "Issuer's Territory"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 10 with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the DCI, the Coupons and the Talons, will be read accordingly; and
- (g) the Issuer and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the DCI Holders, as the Trustee may direct.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the DCI Holders as a class and the Trustee shall not have regard to the consequences of such substitution or such exercise for individual DCI Holders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any substitution or such exercise as aforesaid, no DCI Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual DCI Holders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all DCI Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the DCI Holders in accordance with Condition 15 as soon as practicable thereafter.

### **13. Replacement of the DCIs, Coupons and Talons**

Should any DCIs, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent in Luxembourg (or any other place of which notice shall have been given in accordance with Condition 15) 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 DCIs, Coupons or Talons must be surrendered before any replacement DCIs, Coupons or Talons will be issued.

#### **14. The Trustee**

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

#### **15. Notices**

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

#### **16. Further Issues**

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

#### **17. Agents**

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 or the Calculation Agent, and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent, provided that it will (a) at all times maintain an Agent Bank, a Calculation Agent, a Principal Paying Agent and a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent), (b) for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, a Paying Agent having a specified office in Luxembourg and (c) insofar as the Issuer would be obliged to pay additional amounts pursuant to Condition 10 upon presentation of the DCI or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive is introduced and which is approved by the Trustee, PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State to so withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the DCI Holders in accordance with Condition 15. If any of the Agent Bank, Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the Calculation Agency Agreement or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place.

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

None of the Issuer, the Trustee, the Agent Bank and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation, or any sale of Ordinary Shares made pursuant to Condition 6 or otherwise, by the Calculation Agent.

## **18. Pre-emption**

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

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer of this Condition 18, the Trustee may only require the Issuer to put before the next general meeting of the shareholders of the Issuer a resolution to remedy the breach.

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

For the avoidance of doubt, any Ordinary Shares which the Issuer is required to keep available for issue other than in connection with the DCIs shall be discounted in determining whether the Issuer is complying with its obligations under this Condition 18.

## **19. Governing Law**

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

## **20. Contracts (Rights of Third Parties) Act 1999**

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

## **21. Definitions**

In these Conditions:

“Accrued Coupon Payment” means, as at any time, where these Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of a DCI, the amount of interest accrued thereon in accordance with Condition 5 or 6(e);

“ACSM Payment” means any Deferred Coupon Payment and/or any Substitution Accrued Amount and/or any Accrued Coupon Payment pursuant to Condition 6(e);

“ACSM Payment Date” means the date on which an ACSM Payment is to be satisfied pursuant to these Conditions;

“Additional Amounts” has the meaning given to it in Condition 10;

“Agent Bank” has the meaning given to it in the preamble to these Conditions;

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

“Assets” means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors may determine;

“Authorised Denomination” has the meaning given to it in Condition 1(a);

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

“Calculation Agency Agreement” has the meaning given to it in the preamble to these Conditions;

“Calculation Agent” has the meaning given to it in the preamble to these Conditions;

“Capital Disqualification Event” is deemed to have occurred (1) if under the Directive or the Relevant Rules, or as a result of any change thereto, the DCI would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as cover for the minimum capital resources requirement applicable to the Issuer under the Directive or the Relevant Rules; or (2) if, at any time the Issuer or the Group is required under the Directive or the Relevant Rules to have Tier 1 Capital, the DCIs would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis; or (3) if at any time the Issuer or the Group is required under the Directive and the Relevant Rules to have Tier 1 Capital and the Issuer would be entitled pursuant to Condition 7(e) to substitute the DCIs by Substituted Preference Shares, such Substituted Preference Shares would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis;

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

“Conditions” means these terms and conditions of the DCIs, as amended from time to time;

“Coupon” has the meaning given to it in the preamble to these Conditions;

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

“Coupon Determination Date” means, in relation to each Reset Date, the second TARGET Business Day prior to such Reset Date;

“Couponholder” has the meaning given to it in the preamble to these Conditions;

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

“Coupon Payment Date” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 28 November in each year, starting on 28 November 2005 and (ii) after the First Reset Date, 28 February, 28 May, 28 August and 28 November in each year, starting 28 February 2015, provided that if any Coupon Payment Date after the First Reset Date would otherwise fall on a day which is not a TARGET Business Day, it shall be postponed to the next day which is a TARGET Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding TARGET Business Day;

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

“Coupon Rate” means the Fixed Coupon Rate and/or the Floating Coupon Rate, as the case may be;

“DCI Holder” has the meaning given to it in the preamble to these Conditions;

“DCIs” has the meaning given to it in the preamble to these Conditions;

“Debt Service” means, in respect of a DCI, all payments of principal of and interest on such DCI;

“Deferred Coupon Payment” means (i) any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied and (ii) any Coupon Payment which, by reason of the condition to payment set out in Condition 2(b)(i), has not been satisfied;

“Directive” means Directive 98/78/EC of the European Union;

“Directors” means directors of the Issuer;

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

“European Economic Area” means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

“Euro-zone” means the region comprising member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty;

“Existing Preference Shares” means the 100,000,000 8.375 per cent. cumulative irredeemable preference shares of £1 each and 100,000,000 8.75 per cent. cumulative irredeemable preference shares of £1 each issued by the Issuer;

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

“First Reset Date” means 28 November 2014;

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

“Fixed Rate Coupon Period” means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

“Floating Coupon Amounts” has the meaning given to it in Condition 5(e);

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

“Group” means the Issuer and its Subsidiaries;

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

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

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

“IPRU (INS)” means the “Interim Prudential Sourcebook: Insurers” that forms part of the rules of the FSA or any equivalent rules or regulatory provisions from time to time replacing it or the rules therein;

“Issue Date” means 25 November 2004, being the date of initial issue of the DCIs;

“Issuer” means Aviva plc;

“Junior Share Capital” means the Ordinary Shares, together with any other securities of any member of the Group ranking or expressed to rank junior to the DCIs, (either issued directly by the Issuer or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the DCIs);

“Liabilities” means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors may determine;

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

“Make Whole Premium” means the excess, if any, of (i) the present value of the future Debt Service on the DCI (assuming for this purpose that the DCIs are to be redeemed at their principal amount on the First Reset Date) discounted at 0.60 per cent. above the then current yield on the 4.25 per cent. German Bundesobligationen due 4 July 2014 (or, if such security is no longer in issue, such other German Bundesobligationen in issue on or about the Reference Date as the Calculation Agent may, with the advice of Reference Market Makers, determine to be appropriate by way of substitution for the 4.25 per cent. German Bundesobligationen due 4 July 2014) over (ii) the outstanding principal amount of such DCI, all as determined by the Calculation Agent;

“Make Whole Redemption Price” means, in respect of each DCI, (a) the principal amount of such DCI or, if this is higher, (b) the sum of the principal amount of such DCI and the Make Whole Premium;

“Margin” means 1.77 per cent.;

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

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

“Ordinary Shares” means ordinary shares of the Issuer, having on the Issue Date a par value of 25 pence each;

“Other Tax Event” means an event of the type described in Condition 7(c)(iii);

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

“Parity Securities” means the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time (save for the Priority Preference Shares) and any other securities ranking or expressed to rank *pari passu* with the DCIs (including, for the avoidance of doubt, the Issuer’s £500,000,000 5.9021 per cent. Fixed/Floating Rate Direct Capital Instruments issued on the Issue Date) and such preference shares whether issued directly by the Issuer or by a subsidiary undertaking and benefiting from a guarantee or support agreement ranking, or expressed to rank, *pari passu* with the DCIs;

“Par Tax Event” means an event of the type described in Condition 7(c)(i) and (ii);

“Paying Agency Agreement” has the meaning given to it in the preamble to these Conditions;

“Paying Agents” has the meaning given to it in the preamble to these Conditions;

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

“Payment Ordinary Shares” has the meaning given to it in Condition 6(b)(i);

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

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

“Preference Share Substitution” has the meaning given to it in Condition 7(e);

“Principal Paying Agent” has the meaning given to it in the preamble to these Conditions;

“Priority Preference Shares” means the Existing Preference Shares together with any cumulative preference shares in the capital of the Issuer ranking *pari passu* with the Existing Preference Shares;

“Qualifying Tier 1 Securities” means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities) than the terms of the DCIs, provided that they shall include a ranking at least equal to that of the DCIs and the same Coupon Rate from time to time applying to the DCIs but not necessarily having provisions analogous to the provisions of Condition 6, and further provided that they shall comply with the then current requirements of the FSA in relation to Tier 1 Capital and shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“Qualifying Upper Tier 2 Securities” means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities) than the terms of the DCIs provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital, (2) the same Coupon Rate from time to time applying to the DCIs and (3) such securities preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid, but provided that such securities need not include provisions analogous to the provisions of Condition 6; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

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

“Reference Banks” means four major banks in the Euro-zone interbank market as selected by the Agent Bank;

“Reference Date” means the date which is three dealing days prior to the date fixed for redemption pursuant to Conditions 7(c) or 7(d) by the Issuer;

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

“Relevant Date” means (i) in respect of any payment other than a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the “Relevant Date” means the date on which such moneys shall have been so received and notice to that effect shall have been given to the DCI Holders in accordance with Condition 15, and (ii) in respect of a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up;

“Relevant Rules” means any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area implementing the Directive including the IPRU (INS);

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

“Restricted Person” means a person to whom Substitute Preference Shares will not be available for issue being (a) Euroclear, Clearstream, Luxembourg, First Chicago Clearing Center or any other person providing a clearance service within section 96 of the Finance Act 1986 of the United Kingdom or any nominee thereof or (b) a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within section 93 of the Finance Act 1986 of the United Kingdom or (c) any other person the issue to whom would give rise to an equivalent charge to stamp duty reserve tax in the United Kingdom, in each case at any time prior to the “abolition day” as defined in section 111(1) of the Finance Act 1990 of the United Kingdom;

“Senior Creditors” means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer; (b) creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or whose claims rank, or are expressed to rank *pari passu* with, or junior to, the claims of DCI Holders); (c) creditors of the Issuer whose claims are in respect of the Issuer’s outstanding debt securities which constitute Tier 2 Capital (and such other securities outstanding from time to time which rank *pari passu* with, or senior to, any of such Tier 2 Capital); and (d) holders of Priority Preference Shares;



*For the avoidance of doubt, “Senior Creditors” includes (i) holders of the Issuer’s £800,000,000 6.125 per cent. Fixed Rate Perpetual Reset Subordinated Notes, €500,000,000 5.70 per cent. Fixed/Floating Rate Perpetual Subordinated Notes and €650,000,000 5.25 per cent. Fixed/Floating Rate Subordinated Notes due 2023, each issued by the Issuer on 29 September 2003, (ii) holders of the Issuer’s £700,000,000 6.125 per cent. Fixed/Fixed Rate Reset Subordinated Notes due 2036 and €800,000,000 5.75 per cent. Fixed/Floating Rate Subordinated Notes due 2021, each issued by the Issuer on 14 November 2001 and (iii) holders of the Existing Preference Shares.*

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

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

“subsidiary” has the meaning given to subsidiary undertakings under section 258 of the Companies Act;

“Substitute Obligor” has the meaning given to it in Condition 12;

“Substitution Notice” has the meaning given in Condition 7(e)(i);

“Substituted Preference Shares” has the meaning given to it in Condition 7(e)(i);

“Substituted Territory” has the meaning given to it in Condition 12(f);

“Substitution Accrued Amount” means any Accrued Coupon Payment which is to be satisfied on substitution of the DCIs for Substituted Preference Shares in accordance with Condition 7(e)(ii);

“Substitution Date” has the meaning given to it in Condition 7(e)(i);

“Substitution Event” means the occurrence of a breach by the Issuer or the Group or any member of the Group of the United Kingdom capital adequacy requirements, guidelines or measures or any other regulatory capital requirements, guidelines or measures applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be);

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

“Talon” has the meaning given to it in the preamble to these Conditions;

“TARGET Business Day” means a day on which the TARGET System is operating;

“TARGET System” means the Trans European Real Time Gross Settlement Express Transfer (TARGET) System;

“Tax Law Change” has the meaning given to it in Condition 7(c)(i);

“Tier 1 Capital” and “Tier 2 Capital” have the respective meanings given to them from time to time by the FSA;

“Treaty” means the Treaty establishing the European Communities (signed in Rome on 25 March 1957), as amended;

“Trust Deed” has the meaning given to it in the preamble to these Conditions;

“Trustee” has the meaning given to it in the preamble to these Conditions;

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

“Upper Tier 2 Capital” has the meaning given to it by the FSA from time to time; and

“Upper Tier 2 Securities” means the Issuer's outstanding debt securities which constitute Upper Tier 2 Capital and such other securities outstanding from time to time which rank *pari passu* with such securities.

## TERMS AND CONDITIONS OF THE STERLING DCIs

*The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the DCIs which will be endorsed on each DCI in definitive form (if issued).*

The £500,000,000 5.9021 per cent. Fixed/Floating Rate Direct Capital Instruments (the “DCIs”, which expression shall in these Conditions, unless the context otherwise requires, include any further instruments issued pursuant to Condition 16 and forming a single series with the DCIs) of Aviva plc (the “Issuer”) are constituted by a trust deed (the “Trust Deed”) dated 25 November 2004 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 DCIs (the “DCI Holders”). The issue of the DCIs was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 27 October 2004 and resolutions of a duly authorised committee of the Board of Directors passed on 18 November 2004. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed; (ii) the paying agency agreement (the “Paying Agency Agreement”) dated 25 November 2004 made between the Issuer, HSBC Bank plc as principal paying agent (the “Principal Paying Agent”, which expression shall include any successor thereto) and the other paying agents named therein and any successors thereto (together with the Principal Paying Agent, the “Paying Agents”), HSBC Bank plc as agent bank (the “Agent Bank”, which expression shall include any successor thereto) and the Trustee; and (iii) the calculation agency agreement (the “Calculation Agency Agreement”) dated 25 November 2004 made between the Issuer, the Trustee and Lehman Brothers International (Europe) as calculation agent (the “Calculation Agent”, which expression shall include any successor thereto) are available for inspection during normal business hours by the DCI Holders and the holders of the interest coupons (the “Coupons”, which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the “Talons”) appertaining to DCIs in definitive form (the “Couponholders”) at the registered office of the Trustee, being at the date hereof at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The DCI Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Paying Agency Agreement and the Calculation Agency Agreement applicable to them.

### **1. Form, Denomination and Title**

#### **(a) Form and Denomination**

The DCIs are serially numbered and in bearer form in the denominations of £1,000, £10,000 and £100,000 (each an “Authorised Denomination”) each with Coupons and one Talon attached on issue. DCIs of one Authorised Denomination may not be exchanged for DCIs of another Authorised Denomination.

#### **(b) Title**

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

### **2. Status and Subordination**

#### **(a) Status**

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

**(b) Subordination**

**(i) Condition to Payment**

The rights and claims of the DCI Holders and the Couponholders are subordinated to the claims of all Senior Creditors, in that payments in respect of the DCIs (including Coupons payable in cash or by way of the issue of Ordinary Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Ordinary Shares) and in that no principal, premium or interest shall be due and payable in respect of the DCIs (including Coupons payable in cash or by way of the issue of Ordinary Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter, in each case except in the winding-up of the Issuer.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A certificate as to the solvency of the Issuer by two Directors shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the DCI Holders, the Couponholders and all other interested parties as correct and sufficient evidence thereof.

**(ii) Solvency Claims**

Without prejudice to the rest of these Conditions, amounts representing any payments of principal, premium or interest in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable (“Solvency Claims”) will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3. A Solvency Claim shall not bear interest.

**(iii) Set-off**

Subject to applicable law, no DCI Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the DCIs or the Coupons and each DCI Holder and Couponholder shall, by virtue of his holding of any DCI or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any DCI Holder by the Issuer under or in connection with the DCIs is discharged by set-off, such DCI Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up, the liquidator of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

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

**3. Winding-up**

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except in any such case, a solvent winding-up solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (a) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (b) do not provide that the DCIs shall thereby become payable), there shall be payable by the Issuer in respect of each DCI (in lieu of any other payment

by the Issuer), such amount, if any, as would have been payable to the holder of such DCI if, on the day prior to the commencement of the winding-up and thereafter, such DCI Holder were the holder of one of a class of preference shares in the capital of the Issuer (“Notional Preference Shares”) having an equal right to a return of assets in the winding-up to, and so ranking *pari passu* with, the holders of the most senior class or classes of preference shares with non-cumulative dividends in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer other than the Priority Preference Shares, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up of the Issuer is determined on the assumption that the amount that such DCI Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up, were an amount equal to the principal amount of the relevant DCI and any other Payments which are Outstanding thereon together with, to the extent not otherwise included within the foregoing, its *pro rata* share of any Solvency Claims attributable to the DCI.

*On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the DCI Holders after the claims of the parties ranking senior to the DCI Holders (as provided in Condition 3) have been satisfied.*

#### **4. Coupon Deferral**

The Issuer may elect to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date by giving notice of such election to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent not less than 20 Business Days prior to the relevant Coupon Payment Date. The Issuer shall (except where Condition 3 applies) satisfy any such Deferred Coupon Payment or any Deferred Coupon Payment which arises as a result of the failure to satisfy the condition to payment set out in Condition 2(b)(i) only by operation of the procedures set out in Condition 6 and, subject to Condition 8(d), only upon the occurrence of the first of the following to occur: (i) redemption of the DCIs in accordance with Condition 7(b); (ii) redemption, substitution or variation of the DCIs in accordance with Condition 7(c); (iii) redemption, substitution or variation of the DCIs in accordance with Condition 7(d); or (iv) substitution of the DCIs by Substituted Preference Shares pursuant to Condition 7(e).

If, on any Coupon Payment Date, payment of all Coupon Payments scheduled to be paid on such date is not made in full, the Issuer shall not, (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital, or (b) redeem, purchase, cancel, reduce or otherwise acquire any Junior Share Capital or any Parity Securities, in each case unless or until the Coupon Payments due and payable on any subsequent Coupon Payment Date (or, if this provision applies after the First Reset Date, any two subsequent consecutive Coupon Payment Dates) on all outstanding DCIs have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the DCI Holders and in a manner satisfactory to the Trustee).

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Coupon Payment by virtue of this Condition 4 or Condition 2(b)(i) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Coupon Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

#### **5. Coupon Payments**

##### **(a) Coupon Rate**

The DCIs bear interest at the applicable Coupon Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 2(b)(i), 2(b)(ii), 4, 6(a), 6(d), 6(e) and 8(d), during the Fixed Rate Coupon Period interest shall be payable on the DCIs in arrear on the first Coupon Payment Date and thereafter annually in arrear on each subsequent Coupon Payment Date in the Fixed Rate Coupon Period, and

thereafter interest shall be payable on the DCIs semi-annually in arrear on each Coupon Payment Date, in each case as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any DCI during the Fixed Rate Coupon Period for a period which is less than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Coupon Payment Date. Where it is necessary to compute an amount of interest in respect of any DCI for a period of more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Interest shall accrue on the DCIs in respect of all Coupon Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the First Reset Date on the basis of the actual number of days elapsed in the relevant period divided by 365 (or, in the case of a Coupon Payment Date falling in a leap year, 366).

**(b) Interest Accrual**

The DCIs will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 7(b), the date of redemption, substitution or variation thereof pursuant to Condition 7(c) or 7(d) or the date of substitution thereof pursuant to Condition 7(e), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the DCIs is not properly and duly made, in which event interest shall continue to accrue, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

**(c) Fixed Coupon Rate**

For the Fixed Rate Coupon Period, the DCIs bear interest at the rate of 5.9021 per cent. per annum (the "Fixed Coupon Rate").

**(d) Floating Coupon Rate**

From (and including) the First Reset Date, the DCIs will bear interest at a floating rate of interest (the "Floating Coupon Rate"). The Floating Coupon Rate in respect of each Coupon Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Coupon Determination Date the Agent Bank will determine the offered rate (expressed as a rate per annum) for six-month pounds sterling deposits as at 11.00 a.m. (London time) on such Coupon Determination Date, as displayed on the display designated as page "3750" on the Moneyline Telerate Monitor (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Coupon Rate for the Coupon Period immediately succeeding the Coupon Determination Date shall be such offered rate as determined by the Agent Bank plus the Margin.
- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal London office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the London inter bank market for six-month pounds sterling deposits as at 11.00 a.m. (London time) on the Coupon Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Coupon Rate for the Coupon Period immediately succeeding the relevant Coupon Determination Date shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded upwards if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.

(iii) If on any Coupon Determination Date to which the provisions of sub-paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Coupon Rate for the Coupon Period immediately succeeding such Coupon Determination Date shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded upwards, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Coupon Determination Date, to leading banks in London for a period of six months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Coupon Rate for such Coupon Period shall be either (1) the Floating Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding sub-paragraphs of this Condition 5(d) shall have applied or (2) if none, 6.9021 per cent. per annum.

**(e) *Determination of Floating Coupon Rate and Calculation of Floating Coupon Amounts***

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Coupon Determination Date, determine the Floating Coupon Rate in respect of the relevant Coupon Period and calculate the amount of interest payable in respect of a DCI of each Authorised Denomination on the Coupon Payment Date for the relevant Coupon Period (the “Floating Coupon Amounts”) by applying the Floating Coupon Rate for such Coupon Period to the principal amount of a DCI of each Authorised Denomination, multiplying such sum by the actual number of days in the Coupon Period concerned divided by 365 (or, in the case of a Coupon Payment Date falling in a leap year, 366) and, if necessary, rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards).

**(f) *Publication of Floating Coupon Rate and Floating Coupon Amounts***

The Issuer shall cause notice of the Floating Coupon Rate determined in accordance with this Condition 5 in respect of each relevant Coupon Period and of the Floating Coupon Amounts and the relevant Coupon Payment Date to be given to the Trustee, the Paying Agents and, in accordance with Condition 15, the DCI Holders, in each case as soon as practicable after its determination but in any event not later than the fourth business day thereafter. The Issuer shall cause notice of the same to be given to any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading on the relevant Coupon Determination Date. As used in this Condition 5(f), “business day” means a day (not being a Saturday, Sunday or public holiday) on which banks are open for business in London.

The Floating Coupon Amounts, the Floating Coupon Rate and the Coupon Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Coupon Period or in the event of proven or manifest error.

**(g) *Determination or Calculation by Trustee***

The Trustee (or an agent appointed by it) shall, if the Agent Bank does not at any relevant time for any reason determine the Floating Coupon Rate on the DCIs in accordance with this Condition 5, determine the Floating Coupon Rate in respect of the relevant Coupon Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 5), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Agent Bank.

**(h) *Agent Bank***

So long as any DCIs remain outstanding the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 5(g) above) fails duly to determine the Floating Coupon Rate in respect of any Coupon Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

**(i) *Determinations of Agent Bank or Trustee Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all DCI Holders and Couponholders and (in the absence as aforesaid) no liability to the DCI Holders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

**6. *Alternative Coupon Satisfaction Mechanism***

**(a) *Alternative Coupon Satisfaction Mechanism***

Each ACSM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d)) be satisfied by the Issuer in full only through the issue of Ordinary Shares to the Trustee or its agent in accordance with this Condition 6. The Issuer shall notify the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant ACSM Payment Date that an ACSM Payment is to be satisfied on such ACSM Payment Date. All other Payments due must, subject to Conditions 2 and 4, be satisfied in accordance with Condition 8(a).

**(b) *Issue of Shares***

If any ACSM Payment is to be satisfied through the issue of Ordinary Shares to the Trustee as required by the provisions of this Condition 6 then, subject to Conditions 6(d) and 6(e):

- (i) by close of business on or before the seventh Business Day prior to the relevant ACSM Payment Date, the Issuer will issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Ordinary Shares (the "Payment Ordinary Shares") as, in the determination of the Calculation Agent, will have a market value as near as practicable to, but not less than, the relevant ACSM Payment to be satisfied in accordance with this Condition 6; and
- (ii) the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the sixth Business Day prior to the relevant ACSM Payment Date and the Calculation Agent has agreed in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. The Calculation Agent has further agreed in the Calculation Agency Agreement to deliver such proceeds of such sale to, or hold such proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant ACSM Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

The Trustee shall not be liable to anyone for any loss occasioned by the transfer or sale of the Payment Ordinary Shares, in each case by or on behalf of the Trustee, or any delay or failure in effecting such transfer or sale of the Payment Ordinary Shares under these Conditions.

If the proceeds of the sale of the Payment Ordinary Shares will not, in the opinion of the Calculation Agent, subject to Condition 6(d) and 6(e) but despite the arrangements contained in (ii) above, result in a sum at least equal to the relevant ACSM Payment being available to make the necessary ACSM Payment in full on its due date, the Issuer, the Trustee and the Calculation Agent have agreed to take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Ordinary Shares (also "Payment Ordinary Shares") and following, *mutatis mutandis*, the procedures contained in (i) and (ii) above, a sum as near as practicable to, and at least equal to, the relevant ACSM Payment will be available to make the relevant ACSM Payment in full on its due date.

**(c) *Issue Satisfies Payment***

Where the Issuer is required to make an ACSM Payment hereunder by issuing Payment Ordinary Shares to the Trustee and issues such Payment Ordinary Shares, such issue shall satisfy the relevant ACSM Payment or, as the case may be, in the circumstances referred to in Condition 6(d) below, the relevant part of such ACSM Payment, if made in accordance with this Condition 6. The proceeds of sale of Payment Ordinary Shares shall be paid by the Principal Paying Agent to the DCI Holders in respect of the relevant ACSM Payment.

**(d) *Insufficiency***

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), 7(c), 7(d) or 7(e) to redeem, substitute or vary any of the DCIs until such time as the Issuer has available for, and the Directors have the corresponding authority to, issue a sufficient number of Ordinary Shares as is required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any ACSM Payment required to be satisfied in connection with any such redemption, substitution or variation of the DCIs.

**(e) *Market Disruption***

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and (in accordance with Condition 15) the DCI Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant ACSM Payment may be deferred until such time as the Market Disruption Event no longer exists.

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

**(f) *Listing***

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



## **7. Redemption, Substitution, Variation or Purchase**

### **(a) *No Fixed Redemption Date***

The DCIs are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 11) only have the right to repay, substitute, vary or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

In addition, any redemption, substitution, variation or purchase of the DCIs is (i) subject to giving at least six months' prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given), (ii) (other than in the case of a Preference Share Substitution) subject to the Issuer being in compliance with the capital resources requirements applicable to it from time to time (and a certificate from any two Directors confirming such compliance shall be conclusive evidence of such compliance) and (iii) conditional on the terms of Condition 6(d) being satisfied prior thereto and all Deferred Coupon Payments (if any) and (in the case of Condition 7(e) only) Accrued Coupon Payments (if any) being satisfied in full by the operation of Condition 6 and the Trust Deed on or prior to the date thereof.

### **(b) *Issuer's Call Option***

Subject to Condition 7(a), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the DCIs on the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any Outstanding Payments (such redemption amounts to be payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6).

### **(c) *Redemption, Substitution or Variation Due to Taxation***

If immediately prior to the giving of the notice referred to below:

- (i) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the DCIs, which change or amendment (x) (subject to (y)) becomes, or would become, effective on or after 23 November 2004, or (y) in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by United Kingdom Act of Parliament or by Statutory Instrument, on or after 23 November 2004 (a "Tax Law Change"), in making any payments on the DCIs, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the DCIs and the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it; or
- (ii) as a result of a Tax Law Change in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (x) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (y) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); or (z) the Issuer would otherwise suffer adverse tax consequences, and in each such

case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it; or

- (iii) other than as a result of a Tax Law Change, in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (w) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom or such entitlement is materially reduced; (x) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 23 November 2004 or any similar system or systems having like effect as may from time to time exist); (y) the Issuer would otherwise suffer adverse tax consequences; or (z) the Issuer has paid, or would on the next date on which it is due to make a payment under those Conditions be required to pay, Additional Amounts on the DCI pursuant to Condition 10, and in each such case the Issuer cannot avoid the foregoing in connection with the DCIs by taking measures reasonably available to it,

then

- (aa) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date, all, but not some only, of the DCIs (I) (in the case of a Par Tax Event) at their principal amount, (II) (in the case of an Other Tax Event occurring prior to the First Reset Date) at their Make Whole Redemption Price and (III) (in the case of an Other Tax Event occurring on or after the First Reset Date) at their principal amount, together, in each case, with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6); or
- (bb) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the DCI Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (bb) and subject to the receipt by it of the certificates of the Directors of the Issuer referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the DCIs as provided above.

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

In connection with any substitution or variation in accordance with this Condition 7(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are

for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

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

If immediately prior to the giving of the notice referred to below a Capital Disqualification Event has occurred and is continuing, then:

- (i) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable), redeem in accordance with these Conditions all, but not some only, of the DCIs at any time on or prior to the First Reset Date and thereafter only on a Coupon Payment Date. The DCIs will be redeemed at their Make Whole Redemption Price (in the case of any redemption prior to the First Reset Date) or on or after the First Reset Date at their principal amount, in each case together with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of Condition 6); or
- (ii) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the DCI Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable), substitute at any time all (and not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificates of the Directors of the Issuer referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the DCIs as provided above.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 7(d) the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate, and the Trustee shall accept such certificate as sufficient evidence of the occurrence and continuation of a Capital Disqualification Event in which event it shall be conclusive and binding on the DCI Holders. Upon expiry of such notice the Issuer shall either redeem, vary or substitute the DCIs, as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

**(e) *Substitution for Substituted Preference Shares***

- (i) At any time a Substitution Event has occurred and is continuing, the Issuer may (subject to Condition 7(a)) give not less than 30 nor more than 60 days' notice thereof and of its intention to effect a Preference Share Substitution (as defined below) ("Substitution Notice") to the DCI

Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (which notice shall be irrevocable), and shall on the expiry of such notice (the “Substitution Date”) cause the substitution in accordance with this Condition of all (but not some only) of the DCIs for fully paid non-cumulative preference shares issued directly by the Issuer (the “Substituted Preference Shares”) (such substitution being referred to herein as a “Preference Share Substitution”). The terms of the Substituted Preference Shares shall provide that (x) the Substituted Preference Shares may only be redeemed on 27 July 2020 (being the same date as the First Reset Date of the DCIs) or any dividend payment date thereafter (save for redemption, substitution or variation on terms analogous with the terms of Condition 7(d) and subject to the same conditions as those set out in the second paragraph of Condition 7(a)); (y) that the Issuer has the right to choose whether or not to pay any dividend; and (z) that any dividend payable shall be non-cumulative (and accordingly there shall be no provision analogous to the ACSM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the DCIs and the Coupons taken together (such terms to be as reasonably determined by the Issuer, and in connection therewith a certification signed by two Directors to the effect that the terms of the Substituted Preference Shares comply with the foregoing shall be delivered to the Trustee prior to the Issuer being able to effect such Preference Share Substitution).

- (ii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), all Deferred Coupon Payments and Accrued Coupon Payments (if any) will be satisfied on the Substitution Date by the operation of Condition 6.
- (iii) The Issuer shall enclose with the Substitution Notice a substitution confirmation (the “Substitution Confirmation”) which each DCI Holder will be required to complete, and which shall require each DCI Holder to provide to the Issuer such information as the Issuer may reasonably require to be able to effect a Preference Share Substitution in accordance with this Condition 7(e). The form of such Substitution Confirmation shall also be made available at the offices of each Paying Agent. To receive Substituted Preference Shares in respect of its holding of DCIs, each DCI Holder must deliver to a Paying Agent a duly completed Substitution Confirmation together with all relevant DCIs held by it. Any such Preference Share Substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Certificates (if any) for Substituted Preference Shares issued on a Preference Share Substitution will be despatched by or on behalf of the Issuer by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month of the later of the Substitution Date and receipt of a duly completed Substitution Confirmation. DCI Holders will continue to be entitled to receive payments in respect of the DCIs until the Substitution Date (provided that the Substituted Preference Shares are available for issue as aforesaid from the Substitution Date and the Issuer makes the payment referred to in Condition 7(e)(ii)) and thereafter DCI Holders will have no further rights, title or interest in or to their DCIs except to have them substituted in the manner described in this Condition 7(e). Each Substituted Preference Share allotted will rank for any dividend from the Substitution Date and will, without prejudice to Condition 7(e)(ii), have no entitlement to any Accrued Coupon Payment or any other payment on the DCIs.
- (iv) The Issuer will pay any taxes or capital duties or stamp duties payable in the United Kingdom arising on the allotment and issue of the Substituted Preference Shares. The Issuer will not be obliged to pay, and each DCI Holder delivering DCIs and a duly completed Substitution Confirmation to a Paying Agent must pay, any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant Preference Share Substitution. The Issuer will not be obliged to pay, and each DCI Holder must pay, all, if any, taxes arising by reference to any disposal or deemed disposal of a DCI in connection with such Preference Share Substitution. Substituted Preference Shares will not be allotted to Restricted Persons.

- (v) Prior to the publication of a Substitution Notice, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Substitution Event has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence and continuation of such Substitution Event in which event it shall be conclusive and binding on the DCI Holders.
- (vi) The Issuer undertakes to use all reasonable endeavours to (aa) create and, as of the date of its Annual General Meeting in 2005, maintain a sufficient number of authorised (but unissued) Substituted Preference Shares necessary to effect a Preference Share Substitution in accordance with this Condition 7(e) (including, but not limited to, the procurement of the necessary resolutions of the Issuer to increase the authorised share capital to a level sufficient to issue the Substituted Preference Shares); (bb) obtain, as of the date of its Annual General Meeting in 2005, the corporate authorisations necessary to effect the substitution of the DCIs for the Substituted Preference Shares (including, but not limited to, the procurement of the necessary resolutions of the Issuer to authorise the Directors to issue and allot the Substituted Preference Shares); and (cc) (provided that the Issuer has given the Substitution Notice) obtain and maintain a listing of the Substituted Preference Shares on a Recognised Stock Exchange.
- (vii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.
- (viii) The provisions of this Condition 7(e) (except for Condition 7(e)(ii) as regards satisfaction of Accrued Coupon Payments (if any)) will apply *mutatis mutandis* to Conditions 7(c) and 7(d) in the event that the Qualifying Tier 1 Securities for which the DCIs may be substituted in accordance with either of Conditions 7(c) or 7(d) comprise Substituted Preference Shares.

**(f) Purchases**

The Issuer or any Subsidiary may, subject to Condition 2(b)(i), at any time purchase DCIs in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons appertaining thereto. If purchases are made by tender, tenders must be made available to all DCI Holders alike.

**(g) Cancellation**

All DCIs so redeemed or substituted by the Issuer and any unmatured Coupons and Talons appertaining thereto will be cancelled and may not be reissued or resold. DCIs purchased by the Issuer or any Subsidiary may not be held, reissued, resold and, accordingly, will forthwith be surrendered to any Paying Agent for cancellation.

**(h) Trustee Not Obligated to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to DCI Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

## **8. Payments**

### **(a) Method of Payment**

- (i) Payments of principal, premium and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of DCIs or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relevant DCIs. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any DCIs, any unexchanged Talon relating to such DCIs (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such DCIs (whether or not attached) shall also become void and no payment shall be made in respect of them. If any DCI is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any DCIs, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

### **(b) Payments Subject to Fiscal Laws**

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the DCI Holders in respect of such payments.

### **(c) Payments on Business Days**

If the date for payment of any amount in respect of any DCI or Coupon, or any later date on which any DCI or Coupon is presented for payment, is not 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 Condition 8(c), “business day” means any day (not being a Saturday, Sunday or a public holiday) on which commercial banks and foreign exchange markets which settle payments in sterling are open in London and in the relevant place of payment.

### **(d) Suspension**

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the Issuer shall as soon as practicable give notice to the DCI Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent, whereupon the operation of the ACSM shall be suspended (such event being a “Suspension”). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank appointed by the Issuer (at the Issuer’s expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the DCIs for insurance regulatory capital and solvency purposes without giving at least

six months' prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given); and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order to (aa) preserve substantially the economic effect, for the DCI Holders, of a holding of the DCIs prior to the Suspension and (bb) to replicate the ACSM in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the DCI Holders or Couponholders, effect any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer's right to satisfy an ACSM Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and the DCIs shall (subject in each case to giving at least six months' prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as such notice is required to be given) and with the prior agreement of the new Ultimate Owner) at the option of the Issuer either be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or shall be redeemed, in each case as described below.

If the DCIs are to be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders (which notice shall be irrevocable) and all (but not some only) of the DCIs will be substituted for, or the terms varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Directors of the Issuer referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the relevant investment bank referred to above) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights thereto are preserved for the purposes of the Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay the amount of such Deferred Coupon Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount of not less than the amount of such Deferred Coupon Payments so payable by the Issuer). The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the DCIs for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the DCIs are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, elect to redeem the DCIs as provided in this Condition 8(d). In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the DCIs are for the time being listed or admitted to trading, and (for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of such exchange require) shall publish a supplement in connection therewith.

If the DCIs are to be redeemed by the Issuer, the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the DCI Holders

(which notice shall be irrevocable and which shall expire as soon as practicable after confirmation of no objection from the Financial Services Authority) and all (but not some only) of the DCIs will be redeemed at (in the case of any redemption prior to the First Reset Date) their Make Whole Redemption Price or (on or after the First Reset Date) their principal amount, together in each case with any Outstanding Payments, not later than the 60th Business Day following the giving of such notice by the Issuer to the DCI Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount of not less than the redemption amount so payable by the Issuer).

## **9. Non-Payment when Due**

*Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(b) no principal, premium or Payment will be due on the relevant Payment Date if the Issuer would not be solvent. Also, in the case of any Coupon Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

- (a) If the Issuer shall not make payment in respect of the DCIs (in the case of payment of principal and/or premium) for a period of seven days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment, Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the DCIs and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b) institute proceedings for the winding-up of the Issuer.
- (b) Without prejudice to Condition 9(a) and subject as provided in Condition 18, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the DCIs or the Coupons (other than for the payment of any principal or premium or satisfaction of any Payments in respect of the DCIs or the Coupons, including any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the DCIs or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution of the DCI Holders or in writing by the holders of at least one-quarter in principal amount of the DCIs then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.
- (d) No DCI Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the DCI Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any DCI Holder or Couponholder (i) for the recovery of amounts owing in respect of the DCIs or the Coupons (including any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall), other than the institution of



proceedings for the winding-up of the Issuer and/or proving in such winding-up of the Issuer and (ii) for the breach of any other term under the Trust Deed, the DCIs or the Coupons, other than as provided in Condition 9(b) above.

## **10. Taxation**

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

- (a) to, or to a third party on behalf of, a holder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such DCI or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such DCI or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a DCI Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant DCI or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the DCI Holder or Couponholder 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.

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

## **11. Prescription**

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

## 12. Meetings of DCI Holders, Modification, Waiver and Substitution

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

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the DCIs for the time being outstanding, or at any adjourned meeting one or more persons being or representing DCI Holders whatever the principal amount of the DCIs so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Coupon Payments in respect of the DCIs and reducing or cancelling the principal amount of any DCIs, any applicable premium or the Coupon Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the DCIs for the time being outstanding. The agreement or approval of the DCI Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Conditions 7(c), 7(d) and 8(d) in connection with the substitution or variation of the DCIs so that they become Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be), and to which the Trustee has agreed pursuant to the relevant provisions of Conditions 7(c), 7(d) or 8(d), as the case may be.

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

The Trustee may agree (subject to the Trust Deed), without the consent of the DCI Holders or Couponholders, to any modification (except as set out above in relation to the higher quorum requirements at any meeting of DCI Holders) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any other provisions of the Trust Deed, the Paying Agency Agreement or the Calculation Agency Agreement which, in the opinion of the Trustee, is not materially prejudicial to the interests of the DCI Holders or to any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error. No modification to these Conditions or any other provisions of the Trust Deed or substitution as described below shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice).

The Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the DCI Holders or Couponholders, may agree with the Issuer, without the consent of the DCI Holders 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 DCIs and the Coupons provided that:

- (a) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the DCIs, the Coupons and the Talons, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the DCIs, the Coupons and the Talons, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);
- (b) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed, the DCIs, the Coupons and the Talons are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee;
- (c) if the directors of the Substitute Obligor or other officers acceptable to the Trustee shall certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected,

the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer;

- (d) (without prejudice to the rights of reliance of the Trustee under Condition 12(c)) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the DCI Holders;
- (e) (without prejudice to the generality of Condition 12(a)) the Trustee may in the event of such substitution agree, without the consent of the DCI Holders or Couponholders, to a change in the law governing the Trust Deed and/or the DCIs and/or the Coupons and/or the Talons, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the DCI Holders;
- (f) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "Substituted Territory") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "Issuer's Territory"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 10 with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the DCI, the Coupons and the Talons, will be read accordingly; and
- (g) the Issuer and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the DCI Holders, as the Trustee may direct.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the DCI Holders as a class and the Trustee shall not have regard to the consequences of such substitution or such exercise for individual DCI Holders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any substitution or such exercise as aforesaid, no DCI Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual DCI Holders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all DCI Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the DCI Holders in accordance with Condition 15 as soon as practicable thereafter.

### **13. Replacement of the DCIs, Coupons and Talons**

Should any DCIs, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent in Luxembourg (or any other place of which notice shall have been given in accordance with Condition 15) 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 DCIs, Coupons or Talons must be surrendered before any replacement DCIs, Coupons or Talons will be issued.

### **14. The Trustee**

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

## **15. Notices**

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

## **16. Further Issues**

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

## **17. Agents**

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 or the Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent, provided that it will (a) at all times maintain an Agent Bank, a Calculation Agent, a Principal Paying Agent and a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent), (b) for so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, a Paying Agent having a specified office in Luxembourg and (c) insofar as the Issuer would be obliged to pay additional amounts pursuant to Condition 10 upon presentation of the DCI or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive is introduced and which is approved by the Trustee, PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State to so withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the DCI Holders in accordance with Condition 15. If any of the Agent Bank, Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the Calculation Agency Agreement or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Calculation Agent or the Principal Paying Agent in relation to the DCIs shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the DCI Holders and the Couponholders.

None of the Issuer, the Trustee, the Agent Bank and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation, or any sale of Ordinary Shares made pursuant to Condition 6 or otherwise, by the Calculation Agent.

## **18. Pre-emption**

The Issuer shall, subject to compliance with the requirements of the Companies Act, use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take other corporate actions

required for the issue and allotment of such number of Ordinary Shares as it reasonably considers would be required to be issued in order to enable the Issuer to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and, prior to the First Reset Date, the aggregate of Coupon Payments due on the next Coupon Payment Date and, after the First Reset Date, on the next two Coupon Payments, provided that such reasonable endeavours shall be satisfied where the relevant corporate authorisation required is the passing of a resolution of the shareholders of the Issuer if the board of directors of the Issuer proposes the relevant resolution to its shareholders for approval at any general meeting and, if such proposal is rejected, the relevant resolution is proposed again at the next general meeting.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer of this Condition 18, the Trustee may only require the Issuer to put before the next general meeting of the shareholders of the Issuer a resolution to remedy the breach.

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

For the avoidance of doubt, any Ordinary Shares which the Issuer is required to keep available for issue other than in connection with the DCIs shall be discounted in determining whether the Issuer is complying with its obligations under this Condition 18.

## **19. Governing Law**

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

## **20. Contracts (Rights of Third Parties) Act 1999**

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

## **21. Definitions**

In these Conditions:

“Accrued Coupon Payment” means, as at any time, where these Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of a DCI, the amount of interest accrued thereon in accordance with Condition 5 or 6(e);

“ACSM Payment” means any Deferred Coupon Payment and/or any Substitution Accrued Amount and/or any Accrued Coupon Payment pursuant to Condition 6(e);

“ACSM Payment Date” means the date on which an ACSM Payment is to be satisfied pursuant to these Conditions;

“Additional Amounts” has the meaning given to it in Condition 10;

“Agent Bank” has the meaning given to it in the preamble to these Conditions;

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

“Assets” means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors may determine;

“Authorised Denomination” has the meaning given to it in Condition 1(a);

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

“Calculation Agency Agreement” has the meaning given to it in the preamble to these Conditions;

“Calculation Agent” has the meaning given to it in the preamble to these Conditions;

“Capital Disqualification Event” is deemed to have occurred (1) if under the Directive or the Relevant Rules, or as a result of any change thereto, the DCI would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as cover for the minimum capital resources requirement applicable to the Issuer under the Directive or the Relevant Rules; or (2) if, at any time the Issuer or the Group is required under the Directive or the Relevant Rules to have Tier 1 Capital, the DCIs would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis; or (3) if at any time the Issuer or the Group is required under the Directive and the Relevant Rules to have Tier 1 Capital and the Issuer would be entitled pursuant to Condition 7(e) to substitute the DCIs by Substituted Preference Shares, such Substituted Preference Shares would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis;

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

“Conditions” means these terms and conditions of the DCIs, as amended from time to time;

“Coupon” has the meaning given to it in the preamble to these Conditions;

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

“Coupon Determination Date” means, in relation to each Reset Date, the first Business Day of the relevant Coupon Period;

“Couponholder” has the meaning given to it in the preamble to these Conditions;

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

“Coupon Payment Date” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 27 July in each year, starting on 27 July 2005 and (ii) after the First Reset Date, 27 January and 27 July in each year, starting 27 January 2021, provided that if any Coupon Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

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

“Coupon Rate” means the Fixed Coupon Rate and/or the Floating Coupon Rate, as the case may be;

“DCI Holder” has the meaning given to it in the preamble to these Conditions;

“DCIs” has the meaning given to it in the preamble to these Conditions;

“Debt Service” means, in respect of a DCI, all payments of principal of and interest on such DCI;

“Deferred Coupon Payment” means (i) any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied and (ii) any Coupon Payment which, by reason of the condition to payment set out in Condition 2(b)(i), has not been satisfied;

“Directive” means Directive 98/78/EC of the European Union;

“Directors” means directors of the Issuer;

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

“European Economic Area” means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

“Existing Preference Shares” means the 100,000,000 8.375 per cent. cumulative irredeemable preference shares of £1 each and 100,000,000 8.75 per cent. cumulative irredeemable preference shares of £1 each issued by the Issuer;

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

“First Reset Date” means 27 July 2020;

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

“Fixed Rate Coupon Period” means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

“Floating Coupon Amounts” has the meaning given to it in Condition 5(e);

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

“Group” means the Issuer and its Subsidiaries;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security (as calculated by the Calculation Agent on the basis set out in the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places));

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

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

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

“IPRU (INS)” means the “Interim Prudential Sourcebook: Insurers” that forms part of the rules of the FSA or any equivalent rules or regulatory provisions from time to time replacing it or the rules therein;

“Issue Date” means 25 November 2004, being the date of initial issue of the DCIs;

“Issuer” means Aviva plc;

“Junior Share Capital” means the Ordinary Shares, together with any other securities of any member of the Group ranking or expressed to rank junior to the DCIs, (either issued directly by the Issuer or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the DCIs);

“Liabilities” means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors may determine;

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

“Make Whole Redemption Price” means, in respect of each DCI, (a) the principal amount of such DCI or, if redemption occurs before the first Reset Date and this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the DCI on the Reference Date (assuming for this purpose that the DCIs are to be redeemed at their principal amount on the first Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on the Reference Date of the Reference Bond plus 0.60 per cent., all as determined by the Calculation Agent;

“Margin” means 1.88 per cent.;

“Market Disruption Event” means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or otherwise) or on settlement procedures for transactions in the Ordinary Shares on the London Stock Exchange if, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material in the context of the sale of the Ordinary Shares; or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Payment Ordinary Shares, as the case may be;

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

“Ordinary Shares” means ordinary shares of the Issuer, having on the Issue Date a par value of 25 pence each;

“Other Tax Event” means an event of the type described in Condition 7(c)(iii);

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

“Parity Securities” means the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time (save for the Priority Preference Shares) and any other securities ranking or expressed to rank *pari passu* with the DCIs (including, for the avoidance of doubt, the Issuer’s €700,000,000 4.7291 per cent. Fixed/Floating Rate Direct Capital Instruments issued on the Issue Date) and such preference shares whether issued directly by the Issuer or by a subsidiary undertaking and benefiting from a guarantee or support agreement ranking, or expressed to rank, *pari passu* with the DCIs;

“Par Tax Event” means an event of the type described in Condition 7(c)(i) and (ii);

“Paying Agency Agreement” has the meaning given to it in the preamble to these Conditions;

“Paying Agents” has the meaning given to it in the preamble to these Conditions;

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

“Payment Ordinary Shares” has the meaning given to it in Condition 6(b)(i);

“Permitted Restructuring” means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then Ultimate Owner, the then Ultimate Owner) other than those already held by or on behalf of such Eligible Company or (ii) a



reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then Ultimate Owner, the then Ultimate Owner) other than those already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not then the Ultimate Owner, the then Ultimate Owner) not held by the New Holding Company are cancelled;

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

“Preference Share Substitution” has the meaning given to it in Condition 7(e);

“Principal Paying Agent” has the meaning given to it in the preamble to these Conditions;

“Priority Preference Shares” means the Existing Preference Shares together with any cumulative preference shares in the capital of the Issuer ranking *pari passu* with the Existing Preference Shares;

“Qualifying Tier 1 Securities” means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities) than the terms of the DCIs, provided that they shall include a ranking at least equal to that of the DCIs and the same Coupon Rate from time to time applying to the DCIs but not necessarily having provisions analogous to the provisions of Condition 6, and further provided that they shall comply with the then current requirements of the FSA in relation to Tier 1 Capital and shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“Qualifying Upper Tier 2 Securities” means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities) than the terms of the DCIs provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital, (2) the same Coupon Rate from time to time applying to the DCIs and (3) such securities preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid, but provided that such securities need not include provisions analogous to the provisions of Condition 6; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

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

“Reference Banks” means four major banks in the interbank market in London as selected by the Agent Bank;

“Reference Bond” means the 8 per cent. Treasury Stock due 7 June 2021, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date, as the Calculation Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 8 per cent. Treasury Stock due 7 June 2021;

“Reference Date” means the date which is three dealing days prior to the date fixed for redemption pursuant to Conditions 7(c) or 7(d) by the Issuer;

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

“Relevant Date” means (i) in respect of any payment other than a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the “Relevant Date” means the date on which such moneys shall have been so received and notice to that effect shall have been given to the DCI Holders in accordance with Condition 15, and (ii) in respect of a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up;

“Relevant Rules” means any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the European Economic Area implementing the Directive including the IPRU (INS);

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

“Restricted Person” means a person to whom Substitute Preference Shares will not be available for issue being (a) Euroclear, Clearstream, Luxembourg, First Chicago Clearing Center or any other person providing a clearance service within section 96 of the Finance Act 1986 of the United Kingdom or any nominee thereof or (b) a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within section 93 of the Finance Act 1986 of the United Kingdom or (c) any other person the issue to whom would give rise to an equivalent charge to stamp duty reserve tax in the United Kingdom, in each case at any time prior to the “abolition day” as defined in section 111(1) of the Finance Act 1990 of the United Kingdom;

“Senior Creditors” means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer; (b) creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or whose claims rank, or are expressed to rank *pari passu* with, or junior to, the claims of DCI Holders); (c) creditors of the Issuer whose claims are in respect of the Issuer’s outstanding debt securities which constitute Tier 2 Capital (and such other securities outstanding from time to time which rank *pari passu* with, or senior to, any of such Tier 2 Capital); and (d) holders of Priority Preference Shares;

*For the avoidance of doubt, “Senior Creditors” includes (i) holders of the Issuer’s £800,000,000 6.125 per cent. Fixed Rate Perpetual Reset Subordinated Notes, €500,000,000 5.70 per cent. Fixed/Floating Rate Perpetual Subordinated Notes and €650,000,000 5.25 per cent. Fixed/Floating Rate Subordinated Notes due 2023, each issued by the Issuer on 29 September 2003, (ii) holders of the Issuer’s £700,000,000 6.125 per cent. Fixed/Fixed Rate Reset Subordinated Notes due 2036 and €800,000,000 5.75 per cent. Fixed/Floating Rate Subordinated Notes due 2021, each issued by the Issuer on 14 November 2001 and (iii) holders of the Existing Preference Shares.*

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

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

“subsidiary” has the meaning given to subsidiary undertakings under section 258 of the Companies Act;

“Substitute Obligor” has the meaning given to it in Condition 12;

“Substitution Notice” has the meaning given in Condition 7(e)(i);

“Substituted Preference Shares” has the meaning given to it in Condition 7(e)(i);

“Substituted Territory” has the meaning given to it in Condition 12(f);

“Substitution Accrued Amount” means any Accrued Coupon Payment which is to be satisfied on substitution of the DCIs for Substituted Preference Shares in accordance with Condition 7(e)(ii);

“Substitution Date” has the meaning given to it in Condition 7(e)(i);

“Substitution Event” means the occurrence of a breach by the Issuer or the Group or any member of the Group of the United Kingdom capital adequacy requirements, guidelines or measures or any other regulatory capital requirements, guidelines or measures applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be);

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

“Talon” has the meaning given to it in the preamble to these Conditions;

“Tax Law Change” has the meaning given to it in Condition 7(c)(i);

“Tier 1 Capital” and “Tier 2 Capital” have the respective meanings given to them from time to time by the FSA;

“Treaty” means the Treaty establishing the European Communities (signed in Rome on 25 March 1957), as amended;

“Trust Deed” has the meaning given to it in the preamble to these Conditions;

“Trustee” has the meaning given to it in the preamble to these Conditions;

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

“Upper Tier 2 Capital” has the meaning given to it by the FSA from time to time; and

“Upper Tier 2 Securities” means the Issuer's outstanding debt securities which constitute Upper Tier 2 Capital and such other securities outstanding from time to time which rank *pari passu* with such securities.

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

Each Temporary Global DCI and Permanent Global DCI contains provisions which apply to the DCIs of the relevant Tranche while they are in global form, some of which modify the effect of the terms and conditions of such DCIs as set out in this document. The following is a summary of certain of those provisions (references to the DCIs, the DCI Holders, the Global DCIs, the Temporary Global DCI, the Permanent Global DCI and the Terms and Conditions are to the DCIs, the DCI Holders, the Global DCIs, the Temporary Global DCI, the Permanent Global DCI and the Terms and Conditions, respectively, of each Tranche):

### 1. Exchange

The Temporary Global DCI is exchangeable in whole or in part for interests in the Permanent Global DCI on or after a date which is expected to be 10 January 2005 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global DCI. The Permanent Global DCI is exchangeable in whole but not in part (free of charge to the holder) for the Definitive DCIs described below (i) if the Permanent Global DCI is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if the Issuer would suffer a material disadvantage in respect of the DCIs as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 10 which would not be suffered were the DCIs in definitive form and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee. Thereupon (in the case of (i) above) the holder may give notice to the Trustee and the Principal Paying Agent, and (in the case of (ii) above) the Issuer may give notice to the Trustee, the Principal Paying Agent and the DCI Holders, of its intention to exchange the Permanent Global DCI for Definitive DCIs on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Permanent Global DCI may surrender the Permanent Global DCI to or to the order of the Principal Paying Agent. In exchange for the Permanent Global DCI the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive DCIs (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global DCI and a Talon for further Coupons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Permanent Global DCI, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive DCIs.

“Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### 2. Payments

No payment will be made on the Temporary Global DCI unless exchange for an interest in the Permanent Global DCI is improperly withheld or refused. Payments of principal, premium and interest in respect of DCIs represented by the Permanent Global DCI will be made (subject as provided in the Conditions) against presentation for endorsement and, if no further payment falls to be made in respect of the DCIs, surrender of the Permanent Global DCI to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the DCI Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global DCI, which endorsement will be *prima facie* evidence that such payment has been made in respect of the DCIs. Condition 10(c) and Condition 17(c) of the Euro DCIs and of the Sterling DCIs will apply to the Definitive DCIs only.

### **3. Notices**

So long as the DCIs are represented by the Permanent Global DCI and the Permanent Global DCI is held on behalf of a clearing system, notices to DCI Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the DCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

### **4. Prescription**

Claims against the Issuer in respect of principal, premium and interest on the DCIs while the DCIs are represented by a Global DCI will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 21 of each Tranche of the DCIs).

### **5. Purchase and Cancellation**

Cancellation of any DCI required by the relevant Conditions to be cancelled following its purchase will be effected by a reduction in the principal amount of the relevant Global DCI.

### **6. Trustee's Powers**

In considering the interests of DCI Holders while a Permanent Global DCI is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements as against the clearing system or its operator to amounts of principal in respect of a Permanent Global DCI and may consider such interests as if such accountholders were the holder of such Permanent Global DCI.

### **7. Meetings**

The holder of the Permanent Global DCI will, at a meeting of DCI Holders, be treated as having one vote in respect of each €1,000 (in the case of the Euro DCIs) or £1,000 (in the case of the Sterling DCIs) in principal amount of DCIs for which the Permanent Global DCI may be exchanged.

### **8. Preference Share Substitution**

Subject to the requirements of the relevant clearing system, Substituted Preference Shares shall only be delivered on a Preference Share Substitution if the Permanent Global DCI is presented to or to the order of the Principal Paying Agent together with one or more duly completed Substitution Confirmations.

### **9. Accountholder as DCI Holder**

For so long as the DCIs are represented by the Temporary Global DCI and/or the Permanent Global DCI, each person who is for the time being shown in the records of a clearing system as the holder of a particular principal amount of DCIs (in which regard any certificate or other document issued by a clearing system as to the principal amount of the DCIs standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the Issuer, the Trustee, the Paying Agents and the bearer of the Temporary Global DCI and/or the Permanent Global DCI (as the case may be) as a holder of such principal amount of DCIs for all purposes other than with respect to the payment of principal, premium (if any) and interest on the DCIs, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Global DCI in accordance with and subject to its terms and the terms of the Trust Deed.

## **USE OF PROCEEDS**

The net proceeds of the issue of the DCIs, expected to amount to approximately £981,000,000, will be used to fund the general business and commercial activities of the Group, including repayment of existing debts, and to strengthen further its capital base.

## DESCRIPTION OF THE GROUP

### Overview

#### The Issuer

The Issuer is the holding company for one of the world's leading global insurance groups. The Aviva group of companies (the "Group") is the world's fifth-largest insurance group<sup>1</sup>. It is one of the leading<sup>2</sup> providers of life and pensions products to Europe and has substantial businesses elsewhere around the world. Its main activities are long-term savings, fund management and general insurance. The Group is the United Kingdom's largest insurer<sup>1</sup>, with a share of the UK life market of over 12 per cent.<sup>3</sup> and 13.5 per cent.<sup>4</sup> of the general insurance market.

The table below shows the analysis of operating profit from continuing operations of the Group's major operations for the financial years ended 31 December 2002 and 2003 and the six-month period ended 30 June 2004:

#### Achieved operating profit before tax

	For the six months ended	For the year ended	
	30 June 2004	31 December 2003	31 December 2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Achieved operating profit before tax – continuing operations<sup>5</sup></b>			
Life achieved operating profit .....	800	1,555	1,524
Health .....	33	61	61
Fund management .....	17	10	5
General insurance .....	613	911	881
Non-insurance operations .....	(15)	(64)	(99)
Corporate costs .....	(94)	(160)	(218)
Unallocated interest charges			
– internal .....	(100)	(196)	(228)
– external .....	(124)	(210)	(206)
<b>Achieved operating profit before tax – continuing operations<sup>5,6</sup></b>	<b>1,130</b>	<b>1,907</b>	<b>1,720</b>
<b>Modified statutory basis operating profit before tax-continuing operations<sup>5,7</sup></b>	<b>878</b>	<b>1,490</b>	<b>1,218</b>

In reporting the Group's headline operating profit, life profits have been included using the achieved profit basis. The achieved profit methodology used is in accordance with the guidance on "Supplementary

- 1 Based on Gross Written Premiums ("GWP") from continuing operations for the year ended 31 December 2003 (excluding unit-linked investment sales). GWP are total premiums received by an insurer without any adjustment for the ceding of any portion of these premiums to a reinsurer.
- 2 For life and pensions products: largest in UK; top five in Ireland, The Netherlands, Poland, Spain and Turkey; top ten in Italy, Hungary, Portugal and Romania.
- 3 Based on Annual Premium Equivalent ("APE") for the six months ended 30 June 2004. APE is a standard industry measure which represents new regular long-term savings premiums and 10 per cent. of new single long-term savings premiums.
- 4 Based on GWP for the year ended 31 December 2003.
- 5 Continuing operations represent the results of those businesses which form part of the ongoing operations of the Group and do not include the results of Australia and New Zealand general insurance operations which were disposed of in December 2002.
- 6 Including life achieved operating profit and stated before tax, amortisation of goodwill and exceptional items.
- 7 Before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.

reporting for long-term insurance business (the achieved profit method)” circulated by the Association of British Insurers in December 2001. The Group has focused on the achieved profit basis, as the Group believes that life achieved operating profit is a more realistic measure of the performance of life businesses than the modified statutory basis. The achieved profit basis is used throughout the Group, and by many in the investment community, to assess performance. The modified statutory basis, which is used in the statutory financial statements, is also identified in the headline figures. Modified statutory operating profit before tax for the six months to 30 June 2004 amounted to £878 million (year ended 31 December 2003: £1,490 million; year ended 31 December 2002: £1,218 million).

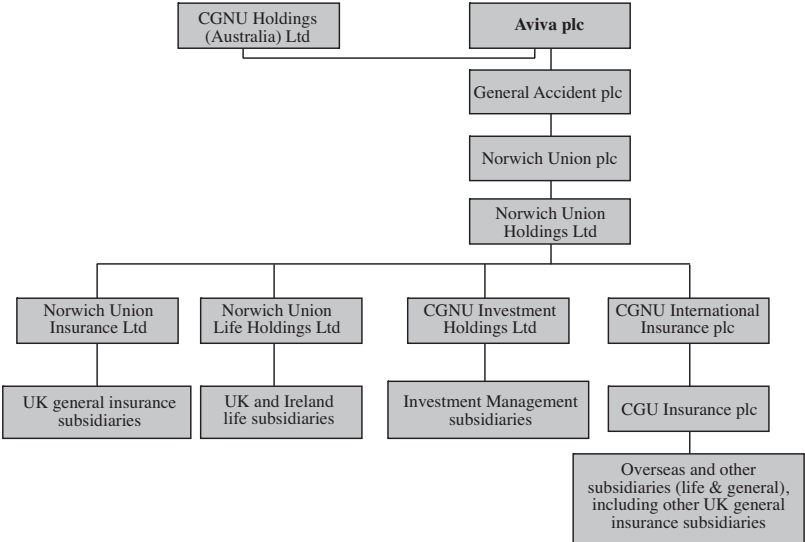
The Group was formed by the merger of CGU plc (renamed CGNU plc on completion of the merger, and subsequently renamed Aviva plc on 1 July 2002) and Norwich Union plc on 30 May 2000. CGU plc and Norwich Union plc were both major insurers operating successfully in the long-term savings and general insurance markets, and had corporate histories of considerable duration. CGU plc was formed in 1998 from the merger of Commercial Union plc and General Accident plc. Commercial Union was established in 1861, General Accident was founded in 1885 and Norwich Union was founded in 1797.

The Issuer is incorporated in England as a public limited company, registered number 2468686. The authorised share capital of the Issuer is £950 million divided into 3,000 million ordinary shares of 25p each, of which 2,261,739,859 had been issued at 30 June 2004 and are fully paid, and 200 million irredeemable preference shares of £1 each, all of which have been issued and are fully paid, resulting in an issued share capital of £765,434,964.75.

The registered office of the Issuer is St Helen’s, 1 Undershaft, London EC3P 3DQ. The memorandum and articles of association form the constitutional documents of the Issuer.

**Organisational structure**

The following chart shows at 30 June 2004, in simplified form, the organisational structure of the Group. The Issuer is the holding company of the Group:



**Group aims and strategy**

The aim of the Group is to become a leading European-based financial services provider, with a focus on long-term savings as its engine of growth. The Group is committed to developing a world-class fund management business and to raising the quality of its general insurance earnings. To generate real value for its shareholders, the Group concentrates on markets where it believes it can achieve a leading position. In line with this, the Group has recently announced the sale of its general insurance businesses in Asia following a strategic review. The Group is now to focus on its long-term business in this region.



In summary the Group's strategy is:

- to grow its long-term savings business aggressively and profitably;
- to build a world-class fund management business;
- to take a focused approach to general insurance, with disciplined underwriting and efficient claims-handling;
- to build top-five positions in key markets; and
- to withdraw from lines of business or markets that do not offer the potential for market-leading positions or superior returns.

## **Brand**

In February 2002, the Group announced its intention to rebrand itself and change the name of the parent company to Aviva plc. CGNU plc changed its name on 1 July 2002. The task of rebranding the Group's worldwide trading operations has largely been completed. The Aviva brand is used across many of the Group's continental European and international businesses. The main exceptions to this are the use of the Norwich Union brand in the United Kingdom, Hibernian in Ireland, Delta Lloyd in The Netherlands and CU Polska in Poland, which are being retained due to the strength of these brands in their local markets.

## **Business of the Group**

### *Overview*

The Group is predominantly a life assurance provider and its activities are long-term savings, fund management and general insurance. It had worldwide premium and investment sales of around £30 billion<sup>8</sup> from continuing operations<sup>5</sup> for the year ended 31 December 2003 and £240 billion in assets under management as at 31 December 2003. At the end of 2003, the Group had 56,000 employees and some 30 million customers worldwide.

The main Group operations are summarised below.

### **1. Long-term savings operations**

Long-term savings business is the focus of the Group and its principal source of growth, with life and pension premiums and investment sales accounting for 68 per cent. of Group revenues by net written premium for the year ended 31 December 2003. The Group reported total life and pensions net written premiums and retail investment sales of £20.1 billion for the year ended 31 December 2003, which comprised £19 billion of long-term business premiums and £1.1 billion of retail investment sales. Life and pensions new business sales were £13.3 billion and the new business contribution (before the effect of the solvency margin) was £621 million for the year to 31 December 2003.

The table below shows a geographical analysis of the net premium written, including sales of investment products, by each long-term savings business unit for the years ended 31 December 2003 and 2002 and for the six-month period to 30 June 2004:

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8 From continuing operations (net of reinsurance) including share of associates' premium.  
5 *ibid* p71.

## Net premium written and investment sales

	For the six months ended	For the year ended	
	30 June 2004	31 December 2003	31 December 2002
	£m	£m	£m
UK .....	4,606	9,622	9,655
France .....	1,345	2,300	2,081
Ireland .....	219	442	469
Italy .....	794	1,662	1,382
The Netherlands (including Belgium and Luxembourg) .....	1,243	1,926	1,419
Poland .....	392	813	746
Spain .....	965	1,641	1,489
Other Europe .....	407	665	618
International .....	421	1,105	1,341
	<u>10,392</u>	<u>20,176</u>	<u>19,200</u>

The table below presents the life achieved operating profit by each business unit for the years ended 31 December 2003 and 2002 and for the six-month period to 30 June 2004:

### Life achieved operating profit

	For the six months ended	For the year ended	
	30 June 2004	31 December 2003	31 December 2002
	£m	£m	£m
UK .....	356	659	699
France .....	114	220	228
Ireland .....	18	65	75
Italy .....	34	70	52
The Netherlands (including Belgium and Luxembourg) .....	129	189	200
Poland .....	33	104	111
Spain .....	78	158	83
Other Europe .....	7	9	(2)
International .....	31	81	78
	<u>800</u>	<u>1,555</u>	<u>1,524</u>

### Market position

The Group, operating under the Norwich Union brand, is the leading<sup>9</sup> long-term savings provider in the UK, with a market share of over 12 per cent. Long-term savings products in the UK represented 32 per cent. of the Group's total net written premiums for the year ended 31 December 2003. Long-term savings products from the Group's continental European businesses represented 32 per cent. of total Group net written

9 Based on APE for the six months ended 30 June 2004.

premiums as at 31 December 2003, and reflected the ongoing success of its European bancassurance channels. The Group now has top five<sup>10</sup> positions in The Netherlands, Ireland, Spain, Poland and Turkey and has strong market positions in France, Italy, Singapore and Australia. UK and continental European operations contributed 93 per cent. of the Group's worldwide long-term new business sales in the year to 31 December 2003.

### ***Products***

The Group's long-term savings business offers a broad range of life assurance and asset accumulation products, including, *inter alia*, pensions, savings products and unit trusts. For individual customers, the Group offers regular premium life products such as whole life, term assurance and mortgage protection policies. The asset accumulation products on offer to individuals include, *inter alia*, life investment bonds, personal pensions, mortgage endowment products and annuities. In the Group market, the products offered include corporate pensions and Group personal pensions.

### ***Distribution***

The Group's life businesses sell their long-term savings products through a number of distribution channels, including brokers and other intermediaries, bancassurance and corporate partnerships as well as direct to customers. The majority of the Group's business is introduced by independent advisers, providing about 48 per cent. of worldwide sales in 2003<sup>11</sup>. The Group's bancassurance partnerships continue to provide strong growth, with new business sales increasing by 27 per cent. to £563 million<sup>12</sup>, contributing 25 per cent. of new business for the Group in 2003. Direct sales represented 23 per cent. of new business for the Group in the same period. In the United Kingdom, Independent Financial Advisers are the main distribution channel. In addition, the Group has developed a strong multi-distribution business through a bancassurance agreement with the Royal Bank of Scotland Group ("RBSG") and with other partnerships including Tesco Personal Finance and 19 building societies.

On 1 October 2004, Aviva entered into a joint venture with Crédit du Nord in France. In addition, the expansion of Aviva's distribution network with Banche Popolari Unite in Italy is expected to be implemented during the first quarter of 2005.

## **2. Fund management**

The fund management business invests both shareholders' and policyholders' funds and provides investment management for institutional pension fund mandates, as well as developing and selling retail investment products. Its main operations are in the UK, France, The Netherlands and Australia.

### ***Market position***

With worldwide assets under management totalling some £240 billion as at 31 December 2003 and £242 billion at 30 June 2004, the Group is the second-largest<sup>13</sup> UK-based fund manager, and is among the top five<sup>14</sup> fund managers in Ireland, through Hibernian, and a top-five<sup>15</sup> master trust in Australia through Navigator.

### ***Brand and products***

The Group's business operating in the UK under the Morley Fund Management ("Morley") brand manages equities, fixed income and property investments on behalf of institutional, pension fund and retail clients. In

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10 Determined as follows: The Netherlands: based on GWP for the three months ended 31 March 2004; Ireland: based on APE for the year ended 31 December 2003; Spain: based on GWP for the six months ended 30 June 2004; Poland: based on GWP for the six months ended 30 June 2004; and Turkey: based on GWP for the six months ended 30 June 2004.

11 Based on worldwide new business sales.

12 On an APE basis.

13 Based on funds under management as at 31 December 2003.

14 Based on funds under management at 31 December 2002.

15 Based on funds under management at 31 March 2004.

addition, Morley has also developed a series of Socially Responsible Investment propositions which it believes will become an increasingly important sector of the market. The Group also sells retail ISAs, unit trusts, open-ended investment companies (Oeics) and structured products under the Norwich Union and RBSG brands. The Group's fund management businesses also manage the funds of Aviva's general and life insurance operations.

In France, the Group's fund management business operates as Aviva Gestion d'Actifs (formerly Victoire Asset Management). The Group's Dutch fund managers operate under the Delta Lloyd and Ohra brands, and in Australia the fund management business operates under the Portfolio Partners brand. The Group also offers Navigator, a master trust investment platform which offers customers a series of options allowing them to build tailored investment portfolios drawing from a wide range of fund managers. Navigator is well-established in Australia and was launched in Singapore in October 2002.

### 3. General insurance and health insurance

The strategy of the Group's general insurance business is to focus primarily on personal lines (typically home, motor and travel cover) and the insurance needs of small businesses. The Group aims to lead in its chosen markets and to combine value for money with excellent customer service. General insurance and health insurance together accounted for 32 per cent. of the Group result by net written premium for the year ended 31 December 2003. In the year ended 31 December 2003, the Group reported general and health insurance net written premiums of £9,590 million and operating profit of £972 million from continuing operations<sup>5</sup>. Aviva has set itself a Combined Operating Ratio ("COR") target of 100 per cent. across the Group for each of the next three years to 2006. As at 30 June 2004, with a worldwide COR of 97 per cent., the Group was ahead of target.

The table below shows a geographical analysis of the net premium written by each business unit, for both general insurance and health insurance, for the years ended 31 December 2003 and 2002 and for the six-month period to 30 June 2004:

#### Net premium written – continuing operations<sup>5</sup>

	<b>For the six months ended</b>	<b>For the year ended</b>	
	<b>30 June 2004</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
UK.....	2,819	5,405	5,004
France .....	382	649	585
Ireland .....	292	611	377
The Netherlands .....	800	1,225	969
Other Europe.....	124	226	408
Canada .....	601	1,208	1,009
International .....	118	266	381
	5,136	9,590	8,733

5      *ibid* p71.

The table below presents the operating profit by each business unit, for both general insurance and health insurance, for the years ended 31 December 2003 and 2002 and for the six-month period to 30 June 2004:

**Operating profit – continuing operations<sup>5</sup>**

	<b>For the six months ended</b>	<b>For the year ended</b>	
	<b>30 June 2004</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
UK .....	411	689	620
France .....	15	44	57
Ireland .....	68	91	44
The Netherlands .....	51	74	55
Other Europe .....	18	32	49
Canada .....	59	12	80
International .....	24	30	37
	646	972	942

**Market position**

The Group is the leading<sup>16</sup> general insurer in the UK and Ireland and has top-five positions in Canada and The Netherlands.<sup>17</sup> The Group also has general insurance operations in France.

In the year ended 31 December 2003, more than half of the Group’s total general insurance and health insurance business was written in the UK, operating under the Norwich Union brand.

**Classes of business and distribution**

The Group’s general insurance business concentrates on leadership in personal lines and the needs of small businesses by providing motor, household, travel, general liability and property coverage and it has moved away from larger commercial risks. The Group continues to manage its portfolio by adopting a disciplined underwriting approach through a rigorous assessment of the risks it accepts and taking rating action where appropriate. Part of the Group’s commitment to exceeding customer expectations is to provide its products through a variety of distribution channels, whether via the internet, telephone, through a bank or building society or traditional brokers.

**Financial Results**

The table below presents the profit after tax of the Group for the years ended 31 December 2003 and 2002 and the interim results for the six-month period to 30 June 2004:

5        ibid p71.

16        Determined as follows: UK: based on GWP for the year ended 31 December 2003; Ireland: based on GWP for the year ended 31 December 2002.

17        Canada: based on GWP for the year ended 31 December 2003; The Netherlands: based on GWP for the year ended 31 December 2003.

## Profit after tax

	For the six months ended	For the year ended	
	30 June 2004	31 December 2003	31 December 2002
	£m	£m	£m
Achieved operating profit <sup>6</sup> .....	1,130	1,907	1,720
Adjustment to modified statutory basis for life business .....	(252)	(417)	(502)
Modified statutory basis operating profit – continuing operations ..	878	1,490	1,218
Discontinued businesses <sup>18</sup> .....	–	–	78
Other items .....	(123)	(238)	(274)
Operating profit before tax .....	755	1,252	1,022
Short-term fluctuation in investment returns .....	(286)	212	(1,243)
Change in equalisation provision .....	(11)	(49)	(57)
Profit/(loss) on sale of subsidiary undertakings .....	6	(6)	(4)
Exceptional items .....	(50)	(19)	–
Profit/(loss) on ordinary activities before tax .....	414	1,390	(282)
Tax .....	(151)	(367)	(206)
Profit/(loss) on ordinary activities after tax .....	263	1,023	(488)

### *Exceptional items*

Exceptional items of £50 million in the six months to 30 June 2004 relate to costs of the closure of Hill House Hammond (“HHH”), which was announced in February 2004. Costs relate to redundancy costs and closure provisions. In 2003 exceptional costs of £19 million were incurred on closure of general insurance operations in Belgium. Costs relate to termination activities including redundancy costs and closure provisions.

### *Other items*

Other items of £123 million in the six months ended 30 June 2004 include charges of (i) £49 million relating to the amortisation of goodwill on long-term and non-long-term business, (ii) £49 million for the amortisation of acquired additional value of in-force long-term business and (iii) £25 million for a Financial Services Compensation Scheme levy. Other items of £238 million in the year ended 31 December 2003 include charges of (i) £103 million for the amortisation of goodwill on long-term and non-long-term business and (ii) £135 million for the amortisation of acquired additional value of in-force long-term business. Other items of £274 million in the year ended 31 December 2002 include charges of (i) £135 million for the amortisation of goodwill on long-term and non-long-term business and (ii) £139 million for the amortisation of acquired additional value of in-force long-term business. The short-term fluctuations reflect volatility in investment markets and the resulting differences in the actual investment return compared to the Group’s long-term investment assumptions.

6      ibid p71.

18     Discontinued operations: Australian and New Zealand general insurance operations were sold by the Group in December 2002.

## **Recent developments**

### ***Closure***

In February 2004, the Group announced the closure of its high street broking operation, HHH, and the sale of its commercial brokers. As part of this closure programme, the Group also planned to convert over 550,000 customers to the direct operation. The cost of this programme was estimated to be £50 million. The Group will complete the closure of all its branches by the end of November 2004. Consideration for disposals relating to HHH is £13.5 million, this includes the disposal of HHH Commercial.

### ***Disposals***

In July 2004, the Group announced the sale of its estate agency “Your Move” and “e.surv” surveying businesses, for £42 million to Lending Solutions Limited backed by Barclays Private Equity, as these businesses were no longer core to Aviva’s strategy.

The Group announced in September 2004 that following a strategic review of its businesses in Asia, the Group plans to focus on its long-term savings businesses in the Asia region, and it has therefore entered into an agreement to sell its general insurance operations to Mitsui Sumitomo Insurance Co. Ltd. for U.S.\$450 million in cash. The sale is expected to complete in the various territories during 2005.

### ***Acquisitions***

In August 2004, the Group announced that Norwich Union Insurance Limited (“NUI”), its UK general insurance business had acquired the entire share capital of HPI Group Holdings Limited (“HPI”) for £118.5 million in cash and £1.5 million in loan notes. HPI is one of the UK’s leading providers<sup>19</sup> of vehicle status checks for used-car purchasers in the UK. This acquisition supports the general insurance business objective of extending its service offering and increasing its level of non-insurance income.

### ***China***

In January 2003, the Group established a joint venture operation in China with China National Cereals, Oils and Foodstuffs Import and Export Corporation and set up offices in Guangzhou. Earlier this year the Group was granted two further licences to operate in the capital Beijing and Chengdu, the Sichuan capital. In September 2004, the Group opened branch offices in these cities.

### ***Operational initiatives***

#### ***Offshoring and outsourcing plans***

In December 2003, the Group announced that it would create around 2,500 jobs in India in 2004 to service the Group’s UK and Canadian businesses. The Group also announced its intention to increase this to a total of 3,700 staff by the end of 2004.

In June 2004, the Group announced the restructuring of its business services division in UK life, resulting in approximately 700 job losses and the reduction of 250 contract worker positions. This work, predominantly software development and application support, will be transferred to IT outsourcing companies with global operations. The Group expects costs associated with these job losses to be approximately £30 million.

In September 2004, the Group announced plans to increase the offshoring capacity by 950 roles, building on the 3,700 roles announced in 2003. Aviva expects to conclude its offshoring plans by the end of 2007 and anticipates that it will have up to 7,000 roles offshore by then, servicing its existing UK businesses. Aviva expects no more than 150 compulsory redundancies in 2005 as a result of expanding its offshoring.

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19 Based on market share.

### *Accounting developments*

In July 2004, the Accounting Standards Board issued Financial Reporting Exposure Draft 34 Life Assurance, in response to concerns raised by the Penrose Report. This exposure draft, which is currently expected to be finalised in December 2004 for implementation for the 31 December 2004 year end, has a specific requirement that options and guarantees be measured at fair value or at an amount using a market consistent stochastic model. Under the current proposals the Group would be required to apply these rules to the Group's UK with-profits funds.

### *Crédit du Nord*

The Group commenced a joint venture with Crédit du Nord on 1 October 2004 for a minimum of 12 years, which will provide Aviva with exclusive distribution for most product types through Crédit du Nord's network of over 600 branches and access to a customer base of around 1.2 million.

### *Banche Popolari Unite*

In April 2004, the Group announced the extension of its current life and savings distribution partnership in Italy with Banca Popolare Commercio e Industria, to the wider Banche Popolari Unite Group. This extension will increase Aviva's access to the banks' branches in Italy by 380 to 3,500 in total.

### *Securitisation of life new business strain*

In October 2004, the Group announced an innovative financing arrangement with RBSG creating a £200 million loan facility, which will provide matched funding for the Group's new term and mortgage protection life insurance business. This arrangement provides an alternative source of funding to financial reinsurance.

### *Ratings reaffirmed*

On 21 September 2004, Standard and Poor's reaffirmed the financial strength rating of AA ("very strong") with a stable outlook in respect of the Group's UK life business. The AA- financial strength rating on the Group's other core operating entities was also reaffirmed on this date.

### **Interim results of the Group**

On 4 August 2004, the Group announced its unaudited interim results as at and for the six months to 30 June 2004, summarised as follows:

	<b>As at and for the six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
<b>Consolidated profit and loss account data</b>		
Net premium written – Long-term savings, including retail investment sales .....	£10,392m	£10,768m
Net premium written – General and health insurance .....	£5,136m	£4,924m
Group achieved operating profit. ....	£1,130m	£828m
New business margins <sup>20</sup> .....	26.5%	24.5%
General insurance combined operating ratio .....	97%	101%
<b>Consolidated balance sheet data</b>		
Shareholders' funds <sup>21</sup> .....	£11,054m	£10,418m
Net asset value per ordinary share <sup>†21</sup> .....	496p	502p*
Interim dividend per ordinary share.....	9.36p	9.0p

20 A UK industry standard calculation based on new business contributions (before the effect of the solvency margin) divided by sales measured on an APE basis.

21 Measured on an embedded value basis.

† Based on equity shareholder funds after adding back the claims equalisation provision.

\* As at 31 December 2003.



On 4 August 2004, the Board declared an interim dividend of 9.36 pence net per share, an increase of 4 per cent. on the 2003 interim dividend.

Worldwide long-term new business sales also showed steady progress in the first half of 2004 with growth in total long-term business sales (including investments sales) of 7 per cent. to £7,889 million. Worldwide life and pension sales increased by 3 per cent., to £7,114 million.

In the UK, Norwich Union delivered a solid performance with an increase in total sales of 6 per cent. to £3,465 million. In continental Europe, the Group's business delivered 14 per cent. growth to £4,084 million reflecting strong sales of unit-linked savings products in France and The Netherlands, particularly those sold through the ABN AMRO bancassurance channel. Sales through the Group's bancassurance partnerships in Spain and Italy were lower compared to the first half of 2003, which benefited from the impact of marketing efforts and one-off-sales. In the Group's international business, sales were lower following weaker sales in the Group's U.S. Life operations, the effect of this was offset in part by improving sales in Australia, where investor confidence in equity markets appears to be returning.

The Group is seeing signs of investor confidence returning, however the level of uncertainty surrounding worldwide economic conditions continues to dampen an upturn in demand, particularly in respect of savings growth in the UK.

New business margins<sup>20</sup> increased to 26.5 per cent. overall for the Group in comparison to 26.1 per cent. for the year ended 31 December 2003.

The Group's worldwide general insurance operations had a very strong start to 2004, with operating profit of £613 million (2003: £387 million) and a COR of 97 per cent. (2003: 101 per cent.) across the Group. The results from all of the Group's major businesses benefited from a positive rating environment, lower claims frequency and better than expected weather-related claims experience. Scale advantages, claims management and efficiencies are expected to provide ongoing benefits. The longer-term investment return on general insurance business assets increased to £508 million (2003: £458 million), reflecting the higher start of year asset values and the interest earned on the proceeds of the subordinated debt issue, raised in the third quarter of 2003.

Underwriting profit for the period amounted to £105 million (2003: loss of £71 million). The improved performance was driven by the Group's disciplined approach to underwriting and claims management and the non-recurrence of the reserve strengthening of £70 million in the Group's Canadian business, Pilot, in the first half of 2003. Better than expected weather-related claims experience in the first six months of 2004 amounted to £30 million (2003: £40 million). The worldwide expense ratio improved to 10.8 per cent. (2003: 10.9 per cent.). The improvement reflects the benefit of ongoing cost efficiency initiatives across the Group's business operations.

Cost efficiency initiatives are continuing across the Group. These include restructuring of part of the Group's Norwich Union life business, resulting in approximately 700 job losses and a reduction of 250 contract worker positions by the end of 2005. The Group expects costs associated with these job losses to be in the order of approximately £30 million.

The Group indicated at the time of its 2003 full year announcement that it anticipated achieving £250 million of gross annualised cost savings in 2004 based on the actions announced up to the end of 2003. This would deliver a net benefit to the profit and loss account of £85 million for the 2004 financial year, after the impact of one-off costs of £140 million in that year. As at 30 June 2004, the net pre-tax benefit to the profit and loss account (relative to the first half of 2002) was £30 million, after bearing one-off costs of £75 million.

### **Group capital and financial strength**

Equity shareholders' funds on an embedded value basis were £10,854 million (31 December 2003: £10,965 million) reflecting strong operational performance and the adverse impact of foreign exchange in the period.

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20      *ibid* p80.

Net asset value per ordinary share, based on equity shareholders' funds<sup>21</sup>, was lower at 496 pence per share (31 December 2003: 502 pence per share) after adding back the equalisation provision of £375 million (31 December 2003: £364 million).

At 30 June 2004 the Group had £20.4 billion (31 December 2003: £20.5 billion) of total capital employed in its trading operations which is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and internal and external borrowings.

The ratio of the Group's external debt to shareholders' funds was 12 per cent. (31 December 2003: 12 per cent.). Interest cover, which measures the extent to which external interest costs, excluding the subordinated debt interest, are covered by achieved operating profit, was 30 times (31 December 2003: 19 times).

### With-profit funds – statutory basis

The free asset ratio ("FAR") is the measure of the excess of assets over liabilities, expressed as a proportion of liabilities. The ratio is based on the statutory basis (as modified) including provision for adverse movement in asset values, the resilience test, based on a fall in equity values of 13.7 per cent. and property of 20.0 per cent. The estimated aggregate FAR for the three main life companies<sup>22</sup> at 30 June 2004 was 14.3 per cent. (31 December 2003: 16.2 per cent.).

### With-profit funds – realistic basis

The Group measures its realistic strength by the value of the orphan estate. The estate provides a level of capital that is available to absorb any unexpected short-term impact from adverse experience. It provides investment freedom to improve policyholders' returns and enables the operation of the with-profit business and associated features of guarantees and smoothing. The estimated orphan estate amounted to £4.2 billion<sup>23</sup> (31 December 2003: £4.3 billion). Appropriate allowance is made for all realistic liabilities of the with-profit funds, including provision for future bonuses, the fair value of guarantees, options and promises on a market consistent basis and the cost of shareholder transfers and tax associated with future bonus. The calculations also make allowance for how the with-profit funds are expected to be run, for example investment policy, and how policyholders are expected to behave, for example persistency.

FARs for the three main UK life companies<sup>22</sup> at 30 June 2004 are set out below, with a comparison of the realistic solvency position:

	Estimated statutory FAR	Estimated realistic orphan estate	Estimated required capital margin	Estimated excess
	(per cent.)	£bn	£bn	£bn
CGNU Life .....	16.8	1.4	0.4	1.0
CULAC .....	12.2	1.5	0.4	1.1
NUL&P <sup>24</sup> .....	14.4	1.3	1.0	0.3
<b>Aggregate</b> .....	<b>14.3</b>	<b>4.2</b>	<b>1.8</b>	<b>2.4</b>

\*Based on PS04/16, the RCM is 2.3 times covered by the orphan estate in aggregate.

At 30 June 2004, the aggregate value of with-profit funds in the UK life business invested on behalf of the Group's policyholders amounted to £52 billion (31 December 2003: £50 billion). The split of investments

21 *ibid* p80.

22 The three main UK life companies: CGNU Life Assurance Limited ("CGNU Life"), Commercial Union Life Assurance Company Limited ("CULAC") and Norwich Union Life and Pensions Limited ("NUL&P").

23 The realistic orphan estate has been calculated in line with the key principles of PS04/16, including the stress tests to determine the required capital margin (RCM). This is a stronger basis than the ABI basis on which the Group's previous results were disclosed. PS04/16 Integrated Prudential Sourcebook for insurers was published in July 2004 by the FSA. This is expected to become final in November 2004 in order to be applicable for years ending on or after 31 December 2004.

24 The FAR for NUL&P includes implicit items for non-profit business only.

included 39 per cent. (31 December 2003: 38 per cent.) invested in equities and 41 per cent. (31 December 2003: 42 per cent.) invested in fixed interest products.

### General insurance – regulatory basis

The Group's principal UK general insurance regulated subsidiaries are CGU International Insurance plc ("CGUIP") and NUI. CGUIP is the parent company of the majority of the Group's overseas life and general insurance subsidiaries. Solvency cover at 30 June 2004 was estimated at 6.3 times for CGUIP and 2.6 times for the NUI group. On an aggregate basis the estimated excess solvency margin for CGUIP and NUI (representing the regulatory value of excess available assets over the required minimum margin) at 30 June 2004 was £3.9 billion (31 December 2003: £3.9 billion).

### General insurance – realistic basis

The Group uses risk-based capital as one of its measures to assess the capital requirements for its general insurance businesses. Its current methodology assesses insurance, market and credit risks and makes prudent allowances for diversification benefits. Based on the Group's model, the risk based capital requirement for its general insurance businesses at 30 June 2004 was £3.3 billion (31 December 2003: £3.3 billion). A remaining £4.5 billion<sup>23</sup> (31 December 2003: £4.3 billion) was available to support the Group's overseas life businesses, approximately 2.3 times (31 December 2003: 2.2 times) the minimum solvency requirement.

### EU Groups directive

The Group had an estimated excess regulatory capital, as measured according to the EU Insurance Groups Directive, of some £2.2 billion at 30 June 2004 (31 December 2003: £2.4 billion). This measure represents the excess of the aggregate value of the regulatory capital employed in the business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the Group's UK and Irish with-profits funds.

### Third quarter new business results

On 29 October 2004, the Group announced its new business results for the nine months to 30 September 2004.

	<b>Nine months ended 30 September</b>	
	<b>2004</b>	<b>2003</b>
Total life and pension new business sales.....	£10,835 m	£9,889 m
Total investment sales .....	£1,126 m	£871 m
Worldwide long-term savings new business sales .....	£11,961 m	£10,760 m
Life and pensions new business sales on an APE basis .....	£1,847 m	£1,745 m
Investment sales on an APE basis.....	£129 m	£98 m
	£1,976 m	£1,843 m
New business contribution – life and pensions business .....	£487 m	£437 m
New business margin before cost of capital .....	26.4%	25.0%

The Group has achieved strong growth across its business units, particularly in the UK and continental Europe. Total new business sales increased by 13 per cent.<sup>25</sup> to £11,961 million (2003: £10,760 million), with 11 per cent.<sup>25</sup> growth in the UK and 17 per cent.<sup>25</sup> growth in the Group's continental European businesses. Worldwide life and pension sales on an APE basis have increased by 7 per cent.<sup>25</sup> and total investment sales on an APE basis have increased 33 per cent.<sup>25</sup> Total bancassurance sales have increased by 11 per cent.<sup>25</sup> to

23     ibid p82.

25     Percentages are provided on a constant currency basis.

£2,839 million (2003: 2,617 million) with a good performance from the Group's arrangement with ABN AMRO.

The new business contribution increased to £487 million (2003: £437 million), an increase of 13 per cent.<sup>25</sup> driven by increases in the UK, France and The Netherlands. The overall new business margin increased to 26.4 per cent. (2003: 25.0 per cent.)

## **Outlook**

The Directors believe that the Group is in a strong and competitive position. Prospects for the long-term savings business are good across the Group's business units and in particular are improving in the UK as some investor confidence returns to the market. In the UK, the Group has taken actions to ensure that it is ready to meet the challenges of depolarisation (as to which see “– United Kingdom regulation – Future developments” below) with its broad distribution strategy. The Group has developed an effective distribution network across its continental European businesses, which supports its strong positions in a number of major European life markets. The Group believes that it is well placed to continue its positive performance given its well recognised brands, product mix and distribution network.

The Group continues to maintain good underwriting discipline within its general insurance businesses and it is encouraged that despite a slowdown in the underwriting cycle the Group is still achieving premium rate increases.

## **Industry developments**

### **Pension mis-selling**

The pensions review of past sales of personal pension policies which involved transfers, opt-outs and non-joiners from occupational schemes, as required by the FSA, has largely been completed. A provision of some £65 million as at 31 December 2003 (2002: £68 million) remains to meet the outstanding costs of the few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme. It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

### **Guarantees on long-term savings products**

As a normal part of their operating activities, various Group companies have given guarantees, including interest rate guarantees, in respect of certain long-term insurance and fund management products. In the United Kingdom, in common with other pension and life policy providers, the Group wrote individual and Group pension policies in the 1970s and 1980s with a guaranteed annuity rate option (“GAO”). Since 1993, such policies have become more valuable to policyholders and more costly for insurers, as current annuity rates have fallen in line with interest rates.

Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable Life case in 2000 which effectively required full reserving by all companies. Prior to the ruling, consistent with the Group's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established. No adjustment was made, or was necessary, to the Group's reserving practice as a result of the ruling. The Directors continue to believe that the existing provisions are sufficient.

## **Endowments**

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment. Nevertheless, following the FSA review, all of the Group's UK mortgage endowment

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<sup>25</sup> ibid p83.

policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage.

In May 2002, in accordance with FSA requirements, the Group commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Group will continue to send these updates annually to all mortgage endowment holders, in accordance with FSA requirements.

An expense provision of £180 million as at 30 June 2004 (31 December 2003: £80 million) has been made to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

In August 2004, the Group confirmed its intention to introduce time barring on mortgage endowment complaints, under FSA rules, by the end of 2005. The Group is writing to its 1.1 million endowment policyholders as part of its ongoing review, stating that it intends to introduce a time bar on mortgage endowment complaints in the future. Customers will be given at least 12 months' individual notice before a time bar becomes applicable – double the six months' notice required by the FSA.

### **Asbestos, pollution and social environmental issues**

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including the United Kingdom, Australia and Canada. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Group's exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Group.

### **Split capital investment trusts**

The Group's fund management subsidiary, Morley Fund Management Limited ("MFML"), acts as investment adviser for a number of split capital investment trusts. In May 2002, the FSA launched extensive and industry-wide investigations into allegations of collusion by fund managers, mis-selling by intermediaries, and the production and distribution of misleading marketing material. In July 2003, the FSA announced that it had broadened the coverage of the collusion investigations to cover a larger number of firms and individuals. As part of these investigations, MFML has been asked to supply information to the FSA. These investigations are ongoing and the FSA is expected to publish its findings in due course.

## **Management**

### **Directors of the Issuer**

The following is a list of directors of the Issuer and their principal directorships (if any) performed outside the Group which are or may be significant with respect to the Issuer, as at the date of this document. The business address of each of the directors referred to below is at St Helen's, 1 Undershaft, London EC3P 3DQ.

<b>Name</b>	<b>Responsibilities in relation to the Issuer</b>	<b>Other significant directorships</b>
Pehr Gyllenhammar	Chairman and Non-executive Director	Governdance Limited Reuters Founders Share Company Limited (Chairman of the Trustees) Swedish Ships Mortgage Bank (Chairman) Lagardère SCA (Member of the supervisory Board) Renault Nissan (Member of the Advisory Board) PlaNet Finance (Member of the supervisory Board) European Financial Services Round Table (Chairman) Rothschild Worldwide (Senior Adviser) Rothschild Europe (Vice Chairman)
Richard Harvey	Group Chief Executive	Association of British Insurers (Chairman)
Andrew Moss	Group Finance Director	–
Philip Scott	Executive Director	–
Patrick Snowball	Executive Director	–
George Paul	Deputy Chairman and Senior Non-executive Director	Agricola Group Limited (Non-executive Chairman) Fleming Overseas Investment Trust plc (Non-executive Chairman), Notcutts Limited (Non-executive Director) Jockey Club Estates Ltd
Guillermo de la Dehesa	Non-executive Director	Bank Santander Central Hispano (Non-executive Director) Goldman Sachs Europe (Non-executive Vice Chairman) Campofrio (Director) Unión Eléctrica Fenosa (Director) Telepizza (Director)
Wim Dik	Non-executive Director	ABN AMRO Bank (Member of the Supervisory Board) Unilever PLC and Unilever NV (Advisory member of the Boards) LogicaCMG (Non-executive Director) Holland Casino Foundation (Chairman of the Supervisory Board) Van Gansewinkel Group (Chairman of the Supervisory Board) TeleAtlas BV (Member of the Supervisory Board)

<b>Name</b>	<b>Responsibilities in relation to the Issuer</b>	<b>Other significant directorships</b>
Richard Goeltz	Non-executive Director	Warnaco Group plc (Non-executive Director) Federal Home Loan Heritage Corporation (Freddie Mac) (Non-executive Director) New Germany Fund (Non-executive Director) London School of Economics and Political Science (Director)
Carole Piwnica	Non-executive Director	Tate & Lyle (Non-executive Vice-Chairman) SA Spadel NV (Non-executive Director)
Derek Stevens	Non-executive Director	The Airline Group Limited (Chairman) British Airways Pension Investment Management Limited (Director) NATS Holdings Limited (Director) Royal Academy of Arts Pension Scheme (Chairman)
Elizabeth Vallance	Non-executive Director	Charter Pan-European Trust plc (Non-executive Director) The Health Foundation (Vice Chairman) Queen Mary & Westfield College, University of London (Fellow) Council of the Institute of Education, University of London (Member) Advisory Committee on Clinical Excellence (Chairman)
André Villeneuve	Non-executive Director	EuroArbitrage (Director) Euronext.LIFFE (Chairman) United Technologies Corporation (Non-executive Director)
Russell Walls	Non-executive Director	Signet Group plc (Company Secretary) Stagecoach Group plc (Non-executive Director)

## **United Kingdom regulation**

### **Insurance business**

The principal subsidiaries of the Group are United Kingdom authorised insurance companies and are subject to the regulation and supervision of the FSA under the Financial Services and Markets Act 2000 (the “FSMA”). Apart from the FSMA, these insurers must also comply with the rules and guidance made by the FSA under powers granted by the FSMA. An important source of these rules and guidance is the Interim Prudential Sourcebook for Insurers (the “Interim Prudential Sourcebook”).

## **Permission to transact business**

Subject to the exemptions provided in the FSMA, no person may carry on insurance business in the United Kingdom unless permitted to do so under the FSMA by the FSA. The FSA, in deciding whether to grant permission, is required to determine whether the applicant satisfies the requirements of the FSMA to be engaged in insurance business and, in particular, whether the applicant is a fit and proper person having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently). A permission to carry on insurance business may include such requirements as the FSA considers appropriate.

## **Regulatory reporting**

Insurance companies have to prepare their accounts in accordance with special provisions applicable to them under the Companies Act 1985, and are required to file them and provide their shareholders with audited financial statements and related reports. Insurance companies are separately required under the Interim Prudential Sourcebook to deposit with the FSA an annual return comprising audited accounts and other prescribed documents within three months of the end of their financial year, if the deposit is made electronically, or otherwise within two months and 15 days of the end of their financial year.

## **Margins of solvency and reserves**

Under the Interim Prudential Sourcebook, individual companies permitted to carry on insurance business in the United Kingdom are required to maintain a margin of solvency, that is, the value of their assets must exceed the amount of their liabilities (each as determined in accordance with the Valuation of Assets Rules and Determination of Liabilities Rules set out in the Interim Prudential Sourcebook) by a specified amount. Failure to maintain the required margin of solvency is one of the grounds upon which the FSA may exercise its powers of intervention.

## **Future developments**

In November 2002, the FSA announced its intention to proceed with the removal of the polarisation regime restrictions. The FSA has subsequently consulted on its "depolarisation" proposals, principally by means of CP166 published in January 2003 and CP04/3 published in February 2004. Under the current polarised regime, those who advise on "packaged products" should either be "independent" (and advise on products provided across the market) or "tied" to one product provider (and advise only on its products). Following "depolarisation" the "tied" sector will be liberalised and the advice on packages offered to customers will be one of three types: (i) advice on the whole market (or a sector of the whole market); (ii) advice on a limited number of product providers; or (iii) advice on a single product provider. This will be known as the "scope" of advice. In line with their "scope", those offering advice will have one or more "ranges" (i.e. lists) of packaged products on which they will give advice. In order to introduce more transparency into the advisory service offered and the cost of advice in a depolarised environment, customers must be provided with a "fees and commission" statement and an "initial disclosure document" when they first seek advice on packaged products. CP04/3 contains the draft FSA rules for depolarisation. The FSA has indicated that it intends to publish the final rules for depolarisation around the end of November or beginning of December 2004 and that implementation of depolarisation is scheduled to come into force on 1 December 2004, although firms will have six months (until 1 June 2005) to comply with the new regime.

The Interim Prudential Sourcebook is due to be replaced in 2004 by the Integrated Prudential Sourcebook as the basis of UK Financial Services regulation. This introduces a more risk sensitive regulatory regime, in which firms are required to analyse the risks being run within their business and to align their capital and risk management processes more closely to those risks. It is also expected (amongst other things) to introduce new disclosure requirements. In a separate development, a new regime to regulate the conduct of general insurance business for the first time is expected to be introduced from the beginning of 2005. This is expected to require all insurance intermediaries to be authorised by the FSA, and to introduce standards for advertising, claims-processing and administration.



The FSA has issued various policy statements which contain much of the final content of the Integrated Prudential Sourcebook. The key policy statements for Aviva are as follows:

PS04/16 – Details new regulations for UK life and general insurance companies, including formalisation of the twin peaks approach for life insurers, and the introduction of Enhanced Capital Requirements for general insurance companies. It contains details of the FSA’s Internal Capital Assessment Standards (“ICAS”) framework. ICAS promotes the development of strong risk management processes and techniques across the UK Financial Services industry.

PS04/20 – Details the new regulations for UK based insurance and financial services groups. This policy statement makes some amendments to the FSA’s implementation of the existing EU Insurance Groups Directive and introduces the EU Financial Conglomerates Directive as a minimum mandatory requirement from 1 January 2005.

PS04/14 – In December 2003, the FSA issued a consultation paper on treating with-profits policyholders fairly. This set out proposals on the management of with-profit funds, aimed at ensuring firms treat their with-profit policyholders fairly. The proposals recognise the substantial benefits of with-profits for some policyholders, but maintain that some specific characteristics expose policyholders to unfairness. The proposals include rules and guidance on payouts, surrender values, market value reductions, closed funds and the process of reattribution of inherited estate. In August 2004 the FSA issued PS04/14, a further consultation on treating with-profits policyholders fairly and setting out a near final-text, the proposals are due to become effective in 2005.

## SUMMARY FINANCIAL INFORMATION

The summary consolidated balance sheets and profit and loss accounts of Aviva (which have been prepared on both an achieved profit basis and a modified statutory basis) have been extracted from the audited 2003 Annual Report and the unaudited interim accounts for the six months ended 30 June 2004 without material adjustments. Since 30 June 2004, the Group has entered into a financing arrangement with Royal Bank of Scotland Group creating a loan facility of £200m. This has not been reflected in the numbers below.

The achieved profit basis measures the economic profit on insurance contracts at the point of sale, whereas the modified statutory basis measures profits that can be distributed to shareholders. The modified statutory solvency basis of reporting is required by statute. The statutory operating profit excludes amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.

The achieved profit statements include the results of the Group's life operations reported under the achieved profit basis combined with the modified statutory basis results of the Group's non-life operations. In the Directors' opinion, the achieved profit basis provides a more accurate reflection of the performance of the Group's life operations year-on-year than results under the modified statutory basis. The achieved profit methodology used is in accordance with the guidance on "Supplementary reporting for long-term insurance business (the achieved profit method)" circulated by the Association of British Insurers in December 2001.

The modified statutory basis is the basis used in the annual statutory accounts of Aviva.

### Summarised consolidated profit and loss account – achieved profit basis

	<b>For the year ended 31 December</b>	
	<b>2003</b>	<b>2002</b>
	<i>£m</i>	<i>£m</i>
<b>Premium income (after reinsurance) and investment sales</b>		
Life premiums, including share of associates' premiums .....	19,035	18,172
Investment sales .....	1,141	1,028
Health premiums .....	1,066	928
	<u>21,242</u>	<u>20,128</u>
General insurance premiums .....	8,524	7,805
<b>Total continuing operations</b> .....	29,766	27,933
Discontinued operations .....	–	692
	<u>29,766</u>	<u>28,625</u>
<b>Operating profit</b>		
Life achieved operating profit .....	1,555	1,524
Health .....	61	61
Fund management .....	10	5
General insurance .....	911	881
Non-insurance operations* .....	(64)	(99)
Corporate costs .....	(160)	(218)
Unallocated interest charges.....	(406)	(434)
	<u>1,907</u>	<u>1,720</u>
<b>Operating profit – continuing operations before tax, amortisation of goodwill and exceptional items</b> .....	1,907	1,720
Discontinued operations – Australia and New Zealand general insurance operations .....	–	78
	<u>1,907</u>	<u>1,798</u>
<b>Operating profit – before tax, amortisation of goodwill and exceptional items</b> .....	1,907	1,798
Amortisation of goodwill .....	(103)	(135)
	<u>1,804</u>	<u>1,663</u>

	<b>For the year ended 31 December</b>	
	<b>2003</b>	<b>2002</b>
	<i>£m</i>	<i>£m</i>
<b>Operating profit before tax</b> .....	1,804	1,663
Variation from longer-term investment return .....	766	(3,504)
Effect of economic assumption changes .....	11	(561)
Change in equalisation provision .....	(49)	(57)
Net loss on the disposal of subsidiary undertakings .....	(6)	(4)
Exceptional costs for termination of operations .....	(19)	–
<b>Profit/(loss) on ordinary activities before tax</b> .....	<u>2,507</u>	<u>(2,463)</u>
Tax on operating profit – continuing operations before amortisation of goodwill and exceptional items .....	(561)	(531)
Tax on profit/(loss) on other ordinary activities .....	(192)	982
<b>Profit/(loss) on ordinary activities after tax</b> .....	<u>1,754</u>	<u>(2,012)</u>
Minority interests .....	(112)	(33)
<b>Profit/(loss) for the financial year</b> .....	<u>1,642</u>	<u>(2,045)</u>
Preference dividends .....	(17)	(17)
<b>Profit/(loss) for the financial year attributable to equity shareholders</b> .....	<u>1,625</u>	<u>(2,062)</u>
Ordinary dividends .....	(545)	(519)
<b>Retained profit/(loss) for the financial year</b> .....	<u><u>1,080</u></u>	<u><u>(2,581)</u></u>

\* The wealth management result has been included within non-insurance in all periods.

## Summarised consolidated balance sheet - achieved profit basis

As at 31 December

	Long-term business 2003	General business and other 2003	Group 2003	Long-term business 2002	Restated* general business and other 2002	Restated* Group 2002
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Total assets before acquired additional value of in-force long-term business .....</b>	177,906	30,286	208,192	152,887	27,613	180,500
Acquired additional value of in-force long-term business.....	488	–	488	505	–	505
<b>Total assets included in the modified statutory balance sheet .....</b>	178,394	30,286	208,680	153,392	27,613	181,005
Liabilities of the long-term business.....	(170,765)	–	(170,765)	(146,930)	–	(146,930)
Liabilities of the general insurance business .....	–	(27,736)	(27,736)	–	(26,391)	(26,391)
<b>Net assets on a modified statutory basis .....</b>	7,629	2,550	10,179	6,462	1,222	7,684
Additional value of internally generated in-force long-term business.....	4,744	–	4,744	3,917	–	3,917
<b>Net assets on an achieved profit basis .....</b>	12,373	2,550	14, 923	10,379	1,222	11,601
Shareholders' capital, share premium, shares held by employee trusts and merger reserves .....			4,622			4,710
Modified statutory basis retained profit .....			1,932			1,126
Additional achieved profit basis retained profit .....			4,611			3,832
<b>Shareholders' funds on an achieved profit basis.....</b>			11,165			9,668
Minority interests .....			944			743
			12,109			10,411
Subordinated debt.....			2,814			1,190
<b>Achieved profit basis total capital, reserves and subordinated debt .....</b>			14, 923			11,601

\* Restated for the effect of a change in accounting policy in respect of the treatment of shares held by employee trusts as a deduction from shareholders' capital.

## Summarised consolidated profit and loss account – achieved profit basis

	For the six months ended 30 June	
	2004	2003
	<i>£m</i>	<i>£m</i>
<b>Premium income (after reinsurance) and investment sales</b>		
<b>Continuing operations</b>		
Life premiums, including share of associates' premiums .....	9,617	10,248
Investment sales .....	775	520
Health premiums .....	682	646
	<u>11,074</u>	<u>11,414</u>
General insurance premiums .....	4,454	4,278
<b>Total</b> .....	<u>15,528</u>	<u>15,692</u>
<b>Operating profit</b>		
Life achieved operating profit .....	800	705
Health .....	33	27
Fund management .....	17	10
General insurance .....	613	387
Non-insurance operations .....	(15)	(47)
Corporate costs .....	(94)	(56)
Unallocated interest charges .....	(224)	(198)
	<u>1,130</u>	<u>828</u>
<b>Operating profit – before tax, amortisation of goodwill and exceptional items*</b> .....	1,130	828
Amortisation of goodwill .....	(49)	(52)
Financial Services Compensation Scheme levy .....	(25)	–
	<u>1,056</u>	<u>776</u>
Operating profit before tax .....	1,056	776
Variation from longer-term investment return .....	(499)	345
Effect of economic assumption changes .....	205	(217)
Change in the equalisation provision .....	(11)	(28)
Profit/(loss) on the disposal of subsidiary and associated undertakings .....	6	(7)
Exceptional costs for termination of operations .....	(50)	(19)
	<u>707</u>	<u>850</u>
<b>Profit on ordinary activities before tax</b> .....	707	850
Tax on operating profit before amortisation of goodwill and exceptional items...	(338)	(260)
Tax on profit/(loss) on other ordinary activities .....	91	(18)
	<u>460</u>	<u>572</u>
<b>Profit on ordinary activities after tax</b> .....	460	572
Minority interests .....	(72)	(40)
	<u>388</u>	<u>532</u>
<b>Profit for the financial period</b> .....	388	532
Preference dividends .....	(9)	(9)
	<u>379</u>	<u>523</u>
<b>Profit for the financial period attributable to equity shareholders</b> .....	379	523
Ordinary dividends .....	(211)	(203)
	<u>168</u>	<u>320</u>
<b>Retained profit for the financial period</b> .....	168	320

\* All operating profits are from continuing operations.

## Summarised consolidated balance sheet – achieved profit basis

As at 30 June

	Long-term business 2004	General business and other 2004	Group 2003	Long-term business 2003	Restated* general business and other 2003	Restated* Group 2003
	£m	£m	£m	£m	£m	£m
<b>Total assets before acquired additional value of in-force long-term business .....</b>	179,990	29,712	209,702	168,853	28,570	197,423
Acquired additional value of in-force long-term business .....	458	–	458	522	–	522
<b>Total assets included in the modified statutory balance sheet .....</b>	180,448	29,712	210,160	169,375	28,570	197,945
Liabilities of the long-term business .....	(173,147)	–	(173,147)	(162,133)	–	(162,133)
Liabilities of the general insurance business .....	–	(27,110)	(27,110)	–	(27,333)	(27,333)
<b>Net assets on a modified statutory basis .....</b>	7,301	2,602	9,903	7,242	1,237	8,479
Additional value of in-force long-term business .....	4,851	–	4,851	4,043	–	4,043
<b>Net assets on an achieved profit basis .....</b>	<u>12,152</u>	<u>2,602</u>	<u>14,754</u>	<u>11,285</u>	<u>1,237</u>	<u>12,522</u>
Shareholders' capital, share premium, shares held by employee trusts and merger reserves .....			4,604			4,666
Modified statutory basis retained profit .....			1,773			1,810
Additional achieved profit basis retained profit .....			4,677			3,942
<b>Shareholders' funds on an achieved profit basis ..</b>			11,054			10,418
Minority interests .....			949			879
			12,003			11,297
Subordinated debt .....			2,751			1,225
<b>Achieved profit basis total capital, reserves and subordinated debt .....</b>			<u>14,754</u>			<u>12,522</u>

\* Restated for the effect of a change in accounting policy in respect of treatment of shares held by employee trusts as a deduction from shareholders' capital.

## Summarised consolidated profit and loss account - modified statutory basis

	For the year ended 31 December	
	2003	2002
	<i>£m</i>	<i>£m</i>
<b>Premium income (after reinsurance) and investment sales</b>		
<b>Continuing operations</b>		
Life premiums, including share of associates' premiums .....	19,035	18,172
Investment sales .....	1,141	1,028
Health premiums.....	1,066	928
	<u>21,242</u>	<u>20,128</u>
General insurance premiums .....	8,524	7,805
<b>Total continuing operations</b> .....	29,766	27,933
Discontinued operations – Australia and New Zealand general insurance operations	–	692
<b>Total</b> .....	<u>29,766</u>	<u>28,625</u>
<b>Operating profit</b>		
Modified statutory life profit .....	1,138	1,022
Health .....	61	61
Fund management.....	10	5
General insurance .....	911	881
Non-insurance operations* .....	(64)	(99)
Corporate costs .....	(160)	(218)
Unallocated interest charges .....	(406)	(434)
<b>Operating profit – continuing operations before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items</b> .....	1,490	1,218
Discontinued operations – Australia and New Zealand general insurance operations	–	78
<b>Operating profit – before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items</b> .....	1,490	1,296
Amortisation of goodwill .....	(103)	(135)
Amortisation of acquired additional value of in-force long-term business .....	(135)	(139)
Operating profit before tax .....	1,252	1,022
Short-term fluctuation in investment return .....	212	(1,243)
Change in the equalisation provision .....	(49)	(57)
Loss on the disposal of subsidiary and associated undertakings .....	(6)	(4)
Exceptional costs for termination of operations .....	(19)	–
<b>Profit/(loss) on ordinary activities before tax</b> .....	1,390	(282)
Tax on profit/(loss) on ordinary activities .....	(367)	(206)
<b>Profit/(loss) on ordinary activities after tax</b> .....	1,023	(488)
Minority interests .....	(74)	(46)
<b>Profit/(loss) for the financial year</b> .....	949	(534)
Preference dividends.....	(17)	(17)
<b>Profit/(loss) for the financial year attributable to equity shareholders</b> .....	932	(551)
Ordinary dividends .....	(545)	(519)
<b>Retained profit/(loss) transferred to/(from) reserves</b> .....	<u>387</u>	<u>(1,070)</u>

\* The wealth management result has been included within non-insurance in all periods.

## Summarised consolidated balance sheet – modified statutory basis

	As at 31 December	
	2003	Restated* 2002
	£m	£m
<b>Assets</b>		
Goodwill .....	1,105	1,040
<b>Investments</b>		
Land and buildings .....	637	668
Investments in associated undertakings and participating interests.....	279	287
Variable yield securities .....	2,967	2,603
Fixed interest securities .....	10,098	7,737
Mortgages and loans, net of non-recourse funding .....	1,448	1,149
Deposits .....	435	550
Other investments.....	65	52
	15,929	13,046
Reinsurers' share of technical provisions.....	2,926	2,882
Reinsurers' share of provision for linked liabilities .....	579	337
Assets of the long-term business .....	136,662	123,012
Assets held to cover linked liabilities .....	40,665	29,538
Other assets.....	10,326	10,645
Acquired value of in-force long-term business .....	488	505
<b>Total assets</b> .....	<b>208,680</b>	<b>181,005</b>
<b>Liabilities</b>		
Shareholders' funds		
Equity .....	6,354	5,636
Non-equity .....	200	200
Minority interests .....	811	658
	7,365	6,494
Subordinated debt.....	2,814	1,190
<b>Total capital, reserves and subordinated debt</b> .....	<b>10,179</b>	<b>7,684</b>
Liabilities of the long-term business .....	121,078	113,310
Fund for future appropriations .....	8,443	3,745
Technical provision for linked liabilities .....	41,244	29,875
General insurance liabilities .....	17,515	16,031
Borrowings .....	1,760	2,064
Other creditors and provisions .....	8,461	8,296
<b>Total liabilities</b> .....	<b>208,680</b>	<b>181,005</b>

\* Restated for the effect of changes in accounting policies in respect of internally-generated additional value of in-force long-term business no longer recognised and the treatment of shares held by employee trusts as a deduction from shareholders' capital.



**Summarised consolidated profit and loss account - modified statutory basis**

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<i>£m</i>	<i>£m</i>
<b>Premium income (after reinsurance) and investment sales</b>		
<b>Continuing operations</b>		
Life premiums, including share of associates' premiums .....	9,617	10,248
Investment sales .....	775	520
Health premiums .....	682	646
	11,074	11,414
General insurance premiums .....	4,454	4,278
<b>Total</b> .....	<b>15,528</b>	<b>15,692</b>
<b>Operating profit</b>		
Modified statutory life profit .....	548	515
Health .....	33	27
Fund management .....	17	10
General insurance .....	613	387
Non-insurance operations.....	(15)	(47)
Corporate costs .....	(94)	(56)
Unallocated interest charges.....	(224)	(198)
<b>Operating profit – before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items*</b> .....		
	878	638
Amortisation of goodwill .....	(49)	(52)
Amortisation of acquired additional value of in-force long-term business .....	(49)	(40)
Financial Services Compensation Scheme levy.....	(25)	–
Operating profit before tax.....	755	546
Short-term fluctuation in investment return.....	(286)	250
Change in the equalisation provision .....	(11)	(28)
Profit/(loss) on the disposal of subsidiary and associated undertakings .....	6	(7)
Exceptional costs for termination of operations .....	(50)	(19)
<b>Profit on ordinary activities before tax</b> .....	414	742
Tax on profit on ordinary activities .....	(151)	(211)
<b>Profit on ordinary activities after tax</b> .....	263	531
Minority interests .....	(39)	(30)
<b>Profit for the financial period</b> .....	224	501
Preference dividends .....	(9)	(9)
<b>Profit for the financial period attributable to equity shareholders</b> .....	215	492
Ordinary dividends .....	(211)	(203)
<b>Retained profit transferred to reserves</b> .....	4	289

\* All operating profit is from continuing operations.

## Summarised consolidated balance sheet – modified statutory basis

	As at 30 June	
	2004	Restated* 2003
	<i>£m</i>	<i>£m</i>
<b>Assets</b>		
Goodwill .....	1,052	1,139
<b>Investments</b>		
Land and buildings .....	607	684
Investments in associated undertakings and participating interests.....	149	289
Variable yield securities .....	2,799	2,700
Fixed interest securities .....	9,734	9,037
Mortgages and loans, net of non-recourse funding .....	2,041	1,129
Deposits .....	744	551
Other investments.....	57	55
	16,131	14,445
Reinsurers' share of technical provisions.....	2,699	2,822
Reinsurers' share of provision for linked liabilities .....	636	651
Assets of the long-term business .....	136,433	132,562
Assets held to cover linked liabilities .....	42,921	35,640
Other assets.....	9,830	10,164
Acquired value of in-force long-term business .....	458	522
<b>Total assets</b> .....	<u>210,160</u>	<u>197,945</u>
<b>Liabilities</b>		
Shareholders' funds		
Equity .....	6,177	6,276
Non-equity .....	200	200
Minority interests .....	775	778
	7,152	7,254
Subordinated debt.....	2,751	1,225
<b>Total capital, reserves and subordinated debt</b> .....	9,903	8,479
Liabilities of the long-term business .....	121,774	120,323
Fund for future appropriations .....	7,816	5,519
Technical provision for linked liabilities .....	43,557	36,291
General insurance liabilities .....	17,553	17,203
Borrowings .....	1,769	2,337
Other creditors and provisions .....	7,788	7,793
<b>Total liabilities</b> .....	<u>210,160</u>	<u>197,945</u>

\* Restated for the effect of changes in accounting policies in respect of internally-generated additional value of in-force long-term business no longer recognised and the treatment of shares held by employee trusts as a deduction from shareholders' capital.

## CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the consolidated capitalisation and indebtedness of the Issuer and its subsidiaries, as extracted without adjustment from the Issuer's unaudited interim accounts as at 30 June 2004 and as adjusted to reflect the issue of the Euro DCIs and the Sterling DCIs.

In October 2004, the Group announced an innovative financing arrangement with RBSG creating a £200 million loan facility. Except for this loan facility, there has been no material change in the authorised and issued share capital of the Issuer and no material change in the indebtedness of the Issuer or the Group since 30 June 2004.

	<b>As at 30 June 2004</b>	<b>As adjusted for issue of Euro and Sterling DCIs</b>
	<i>£m</i>	<i>£m</i>
<b>Liabilities</b>		
Subordinated Debt <sup>(1)</sup>		
Sterling 6.125 per cent. Fixed/Fixed Rate Reset Subordinated Notes due 2036....	679	679
Euro 5.75 per cent. Fixed/Floating Rate Subordinated Notes due 2021 .....	527	527
Sterling 6.125 per cent. Fixed Rate Perpetual Reset Subordinated Notes.....	785	785
Euro 5.70 per cent. Fixed/ Floating Rate Perpetual Subordinated Notes .....	429	429
Euro 5.25 per cent. Fixed/ Floating Rate Subordinated Notes due 2023 .....	331	331
	<u>2,751</u>	<u>2,751</u>
<b>Borrowings<sup>(1),(2),(3),(8)</sup></b>		
8.625 per cent. – 9.5 per cent. Debenture loans <sup>(4)</sup>		
Due within one year .....	164	164
Due after more than one year and less than five years .....	—	—
Due after five years .....	288	288
	<u>452</u>	<u>452</u>
<b>Amounts due to credit institutions<sup>(5)</sup></b>		
Due within one year .....	111	111
Due after more than one year and less than five years .....	6	6
Due after five years .....	24	24
	<u>141</u>	<u>141</u>
<b>Commercial paper<sup>(6)</sup></b>		
Due within one year .....	1,176	1,176
Total borrowings <sup>(7)</sup> .....	<u>1,769</u>	<u>1,769</u>
Total borrowings and subordinated debt .....	<u>4,520</u>	<u>4,520</u>

	As at 30 June 2004	As adjusted for issue of Euro and Sterling DCIs
	<i>£m</i>	<i>£m</i>
<b>Shareholders' funds<sup>(2)</sup></b>		
Share capital <sup>(9)</sup>		
Ordinary share capital .....	565	565
Preference share capital .....	200	200
Euro 4.7291 per cent. Fixed/Floating Rate Direct Capital Instruments <sup>(1)</sup> .....	–	470
Sterling 5.9021 per cent. Fixed/Floating Rate Direct Capital Instruments .....	–	500
<b>Share premium account</b> .....	1,118	1,118
<b>Retained profits and reserves</b> .....	9,171	9,171
<b>Total shareholders' funds</b> .....	<u>11,054</u>	<u>12,024</u>

Notes:

- (1) Foreign currency borrowings and Euro DCIs have been translated at closing rates on 30 June 2004.
- (2) Shareholders' funds and borrowings are based on unaudited consolidated figures as at 30 June 2004. Shareholders' funds are shown net of the proposed interim dividend of £211 million payable on 17 November 2004 on an embedded value basis.
- (3) Borrowings exclude intra Group loans.
- (4) Of the total amount of debenture loans, £322 million is guaranteed by companies within the Group and a further £5 million is secured against property owned by the Group. There are no borrowings guaranteed by third parties.
- (5) Of the total amount due to credit institutions, £nil is guaranteed by companies within the Group. There are no borrowings guaranteed by third parties. All borrowings are unsecured.
- (6) Of the total amount of commercial paper, £1,166 million is guaranteed by companies within the Group. There are no borrowings guaranteed by third parties. All borrowings are unsecured.
- (7) Of the total borrowings and subordinated debt, £4,342 million are held in the United Kingdom, £10 million in France, £150 million in The Netherlands, £11 million in Ireland and the remainder are held in Australia, Canada and the Middle East.
- (8) The Issuer does not have outstanding any convertible debt securities or debt securities with warrants attached.
- (9) The authorised share capital of the Issuer is £950 million divided into 3,000 million ordinary shares of 25p each, of which 2,261,739,859 had been issued at 30 June 2004 and are fully paid, and 200 million irredeemable preference shares of £1 each, all of which have been issued and are fully paid.
- (10) The Group has a scrip dividend scheme which provides shareholders with an opportunity, should they wish, to receive new ordinary shares instead of cash dividends. Shareholders were required to register for this scrip dividend by 20 October 2004. 150,232 shareholders, holding a total of 1,090,760,897 shares, had elected on or before such date to receive the scrip dividend; such election has resulted in the issue of 20,115,947 ordinary shares on the interim dividend payment date, being 17 November 2004.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of the current United Kingdom law and practice relating to the taxation treatment of the DCIs as at the date of this Offering Circular and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of the DCIs and Coupons and may not apply to certain classes of DCI Holders, such as dealers in securities. This summary deals only with the question of whether payments of interest on the DCIs may be made without withholding or deduction for or on account of United Kingdom income tax and does not deal with other United Kingdom tax consequences that might arise from holding DCIs. DCI Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.*

### **Withholding tax**

1. So long as the DCIs continue to be listed on a recognised stock exchange within the meaning of section 841 Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax. The Luxembourg Stock Exchange is a recognised Stock Exchange for these purposes.
2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual 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 or the amount of interest paid or received and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

If the DCIs cease to be listed on a recognised stock exchange interest on the DCIs will generally be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject 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.

Interest on the DCIs may also be paid without deduction or withholding on account of United Kingdom tax where interest on the DCIs is paid to a person who belongs in the United Kingdom for United Kingdom taxation purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the DCIs is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest provided that the Inland Revenue has not given a direction that the interest should be paid under deduction of tax in circumstances where it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

3. 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 DCIs who are not resident in the United Kingdom, except where the holder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, a permanent establishment in the United Kingdom in connection with which the interest is received or to which the DCIs 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 or permanent establishment.
4. If interest were paid under deduction of United Kingdom income tax (e.g. if the DCIs lost their listing), DCI Holders 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.
5. DCI Holders should note that the provisions relating to additional amounts referred to in Condition 10 of "Terms and Conditions of the Euro DCIs" and "Terms and Conditions of the Sterling DCIs" 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.

**Proposed EU Directive on the taxation of savings income**

6. The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

## SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., Barclays Bank PLC, Goldman Sachs International, Lehman Brothers International (Europe), Citigroup Global Markets Limited, HSBC Bank plc and The Royal Bank of Scotland plc (together, the “Managers”) have, pursuant to Subscription Agreements each dated 23 November 2004 (each a “Subscription Agreement”), agreed with the Issuer to subscribe and pay for the DCIs:

- (a) in respect of the Euro DCIs at 100 per cent. of the principal amount of the Euro DCIs plus accrued interest (if any); and
- (b) in respect of the Sterling DCIs at 100 per cent. of the principal amount of the Sterling DCIs plus accrued interest (if any).

Certain commissions are being paid to the Managers by the Issuer in connection with the issue of the DCIs. In addition, the Managers may pay certain expenses of the Issuer incurred in connection with the issue of the DCIs.

The Managers are entitled to terminate the Subscription Agreements in certain circumstances prior to payment to the Issuer.

### United States

The DCIs 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 (“Regulation S”).

The DCIs 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 of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the DCIs (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 DCIs during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the DCIs within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

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

### United Kingdom

Each Manager has severally represented, warranted and agreed that:

- (i) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the DCIs, will not offer or sell any DCIs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of

section 21 of the FSMA) received by it in connection with the issue or sale of any DCIs in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the DCIs in, from or otherwise involving the United Kingdom.

### **The Netherlands**

Each Manager has severally represented, warranted and agreed that it has not, directly or indirectly, offered or sold and that it will not, directly or indirectly, offer or sell any DCIs in the Netherlands, whether at their initial distribution or at any time thereafter, other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, securities firms, investment institutions, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

### **France**

Each of the Managers and the Issuer has severally represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell, directly or indirectly, any DCIs to the public in the Republic of France and (ii) offers and sales of DCIs will be made in the Republic of France only to qualified investors as defined and in accordance with Articles L.411-1 and L.411-2 of the French *Code monétaire et financier* and Decree No. 98-880 dated 1 October 1998 relating to offers to qualified investors.

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

### **Federal Republic of Germany**

Each Manager has severally represented and agreed that the DCIs have not been and will not be publicly offered in Germany and, accordingly, that no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the DCIs in Germany in accordance with the Securities Sales Prospectus Act of 9 September 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*, the “Prospectus Act”), has been or will be published or circulated in the Federal Republic of Germany. Each Manager has further severally represented and agreed that it has only offered and sold and will only offer and sell the DCIs in the Federal Republic of Germany in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the DCIs in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

### **Republic of Italy**

The offering of the DCIs has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no DCIs may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to the DCIs be distributed in the Republic of Italy (“Italy”), except:

- (i) to professional investors (“*operatori qualificati*”), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998 (the “CONSOB Regulation No. 11522”), as amended; or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.



Accordingly, any offer, sale or delivery of the DCIs or distribution of copies of this Offering Circular or any other document relating to the DCISs in Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, the CONSOB Regulation No. 11522 and Legislative Decree No. 385 of 1st September, 1993 (the “Banking Act”), as amended, and any other applicable laws and regulations;
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of securities in Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in Italy and their characteristics; and
- (c) in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

### **Singapore**

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has severally represented, warranted and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any DCIs nor has it offered or sold or caused such DCIs to be made the subject of an invitation for subscription or purchase and will not offer or sell such DCIs or cause such DCIs to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of such DCIs to the public in Singapore.

### **Hong Kong**

Each Manager has severally represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any DCIs other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong; and
- (ii) it has not issued and will not issue any advertisement, invitation or document relating to the DCIs, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to DCIs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made thereunder.

### **General**

No action has been or will be taken in any country or any jurisdiction by the Managers or the Issuer that would permit a public offering of the DCIs, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the DCIs, in any country or jurisdiction where action for that purpose is required. Each Manager has agreed to comply (to the best of its knowledge and belief, having made reasonable enquiries) with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers DCIs or has in its possession or distributes the Offering Circular or any such other material relating to the DCIs, in all cases at its own expense. Each Manager has also undertaken to ensure that no obligations are imposed on the Issuer or any other manager in any such jurisdiction as a result of any of the foregoing actions. The Issuer and the other managers will have no responsibility for, and each Manager has agreed to obtain any consent, approval or permission required by

it for, the acquisition, offer, sale or delivery by it of DCIs under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Manager has been authorised to make any representation or use any information in connection with the issue, subscription and sale of the DCIs other than as contained or incorporated by reference in this Offering Circular or any amendment or supplement to it.

## GENERAL INFORMATION

- (1) The Issuer is incorporated in England with registered number 2468686.
- (2) In connection with the application to list the DCIs on the Luxembourg Stock Exchange a legal notice relating to the issue of the DCIs and copies of the Memorandum and Articles of Association of the Issuer will be deposited with the Registrar of Commerce and Companies in Luxembourg (*Registre du Commerce et des Sociétés 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 Group since 30 June 2004 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2003.
- (4) Save as disclosed herein, the Group is not and has not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the previous 12 months, a significant effect upon the financial position of the Group.
- (5) The annual accounts of the Issuer for the last two financial years have been audited. The consolidated accounts of the Issuer for the years ended 31 December 2002 and 31 December 2003 were audited by Ernst & Young LLP, Registered Auditor, in accordance with auditing standards and have been reported on without qualification. The report of the Issuer's auditors for the year ended 31 December 2003 contained a statement that to the fullest extent permitted by law, the Issuer's auditors do not accept or assume responsibility to anyone other than the Issuer and the Issuer's members as a body for their audit work, for their report, or for the opinions they have formed. The address of Ernst & Young LLP is 1 More London Place, London SE1 2AF, United Kingdom.
- (6) The consolidated financial information of the Issuer for the years ended 31 December 2002 and 2003 contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Act"). Statutory accounts for such years have been delivered to the Registrar of Companies in England and Wales. The Issuer's auditors have made reports under Section 235 of the Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Act and did not contain any statements made under Section 237(2) or (3) of the Act.
- (7) The issue of both Tranches of the DCIs was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 27 October 2004 and by a resolution of a committee of the Board of Directors of the Issuer passed on 18 November 2004.
- (8) The DCIs have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISINs and Common Codes for the DCIs are as follows:

	ISIN	Common Code
Euro DCIs	XS0206511130	020651113
Sterling DCIs	XS0206511486	020651148

- (9) Copies of the latest annual report and consolidated accounts and the non-consolidated balance sheet of the Issuer, the latest interim consolidated accounts of the Issuer and the Articles of Association of the Issuer may be obtained free of charge, and copies of the Trust Deed, Paying Agency Agreement and Calculation Agency Agreement will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, so long as any of the DCIs are outstanding. Though the Issuer publishes both consolidated and non-consolidated accounts, the non-consolidated accounts do not provide significant additional information as compared to the consolidated accounts. The Issuer publishes unaudited interim consolidated accounts on a semi-annual basis.
- (10) The DCIs and Coupons will bear 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*".

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