

# Gracechurch Life Finance p.l.c.

(incorporated in Ireland with limited liability under registered number 374710)

## £400,000,000 Floating Rate Secured Notes due 2013 Issue Price of the Notes: 100 per cent.

Unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal  
by Ambac Assurance UK Limited



Gracechurch Life Finance p.l.c. (the "Issuer") will issue on or about 12 November 2003 (or such later date as the Lead Manager and the Issuer may agree) (the "Closing Date") the £400,000,000 Floating Rate Secured Notes due 2013 (the "Notes"). The Notes will have the following basic characteristics:

Aggregate Nominal Amount	Interest Rate	Interest Payment Date	Issue Price	Expected Ratings (S&P/Moody's)	Final Maturity Date
£400,000,000	3 month LIBOR plus 0.40 per cent. per annum	15 January, 15 April, 15 July and 15 October in each year (or, if such day is not a Business Day, the immediately succeeding Business Day)	100 per cent.	AAA/Aaa	2013

The Notes will be constituted by a single trust deed to be dated on or about the Closing Date and made between the Issuer, The Bank of New York, London Branch, as trustee (the "Note Trustee"), and Ambac Assurance UK Limited ("Ambac"). Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") to admit the Notes to the Official List of the Irish Stock Exchange.

The Notes will be unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal (each as defined in the Ambac Financial Guarantee) pursuant to a financial guarantee policy and the endorsement thereto (the "Ambac Financial Guarantee") to be issued by Ambac as set out in "Form of Ambac Financial Guarantee" below.

The Notes will initially be represented by a temporary global note in bearer form (the "Temporary Global Note") without coupons or talons attached and which will represent the aggregate principal amount outstanding of the Notes. The Temporary Global Note will be deposited on behalf of the subscribers of the Notes with The Bank of New York, London Branch, as common depository (the "Common Depository") for Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") on or about the Closing Date. Interests in the Temporary Global Note will be exchangeable on and after the date which is 40 days after the Closing Date (the "Exchange Date"), upon certification of non-U.S. beneficial ownership, for interests in a permanent global note (the "Permanent Global Note") representing the Notes, in bearer form without coupons or talons, which will also be deposited with the Common Depository. The Permanent Global Note will be exchangeable for definitive Notes (the "Definitive Notes") issued in bearer form in the limited circumstances described in Condition 2 of the Terms and Conditions of the Notes.

Interest on the Notes is payable by reference to successive interest periods (each, an "Interest Period"). Interest will be payable quarterly in arrear in pounds sterling and in each case on 15 January, 15 April, 15 July and 15 October in each year (subject to adjustment as specified herein for non-business days) (each, an "Interest Payment Date") commencing on the Interest Payment Date falling in January, 2004.

The Notes will mature on the Interest Payment Date falling in April, 2013, unless previously redeemed in full. The Notes will be subject to mandatory partial redemption and/or optional redemption in whole or in part before such date in the specific circumstances and subject to the conditions more summarised under "Transaction Summary – Description of the Notes" and more fully set out in the Terms and Conditions of the Notes.

If any withholding or deduction for or on account of tax is applicable to the Notes, payment of interest on, and principal and premium (if any) in respect of, the Notes will be made subject to such withholding or deduction. In such circumstances, neither the Issuer, Ambac nor any other party will be obliged to pay any additional amounts as a consequence.

The Notes will be obligations of the Issuer only. The Notes will not be obligations or responsibilities of, or guaranteed by, any other person other than Ambac in respect of Scheduled Interest and Ultimate Principal. In particular, the Notes will not be obligations or responsibilities of, nor will they be guaranteed by, the Note Trustee, the Issuer Security Trustee, the Reinsurer Security Trustee, the Lead Manager, Ambac (save in relation to the payment of Scheduled Interest and Ultimate Principal), the Agent Bank, the Liquidity Provider, the Swap Provider, the Principal Paying Agent, the Irish Paying Agent, the Account Bank, Tillinghast, the Reinsurer Investment Manager and Reinsurer Custodian, the Issuer Cash Manager, the Issuer Administrator, the Reinsurer Administrator, the Reinsurer, New Barclays Life, BLAC, Barclays or any of its affiliates, or any other company in the same group of companies as, or affiliated to, Barclays or any other company in the same group of companies as, or affiliated to, the Issuer.

It is expected that the Notes will, when issued, be assigned an "AAA" rating by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and an "Aaa" rating by Moody's Investors Service Limited ("Moody's") and, together with S&P, the "Rating Agencies"). The ratings of the Notes are based on, *inter alia*, the financial strength and claims paying ability of Ambac. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

For a description of certain risks associated with an investment in the Notes, see the section herein entitled "Investment Considerations".

A copy of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the requirements of the European Communities (Stock Exchange) Regulations, 1984 of Ireland (as amended) (the "Regulations") has been delivered to the Registrar of Companies in Ireland in accordance with regulation 13(1) of the Regulations.

Lead Manager  
Barclays Capital

The date of this Offering Circular is 31 October 2003.

The Issuer accepts responsibility for all the information contained in this Offering Circular other than the Ambac Information (as defined below). To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility accordingly.

Ambac accepts responsibility for the information contained in the sections entitled “*Ambac Assurance UK Limited*”, “*Ambac Assurance Corporation*”, “*Relationship between Ambac Assurance UK Limited and Ambac Assurance Corporation*”, “*Form of Ambac Financial Guarantee*”, in Appendix 2 entitled “*Financial Statements of Ambac Assurance UK Limited*” and paragraphs 2, 5(a), 6(a), 9(a), 10(a), 15(d) and 15(e) of the section entitled “*General Information*” below (together, the “**Ambac Information**”). To the best of the knowledge and belief of Ambac (having taken all reasonable care to ensure that such is the case), the Ambac Information is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Ambac as to the accuracy or completeness of any information contained in this Offering Circular (other than the Ambac Information) or any other information supplied in connection with the Notes or their distribution. Other than in respect of the Ambac Information, Ambac has not separately verified the information contained herein and no representation, warranty or undertaking, express or implied, is made and no liability accepted by Ambac as to the accuracy or completeness of such information. Each person receiving this Offering Circular acknowledges that such person has not relied on Ambac or any of its affiliates in connection with its investigation of the information contained herein (other than the Ambac Information).

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Notes other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, Ambac, the Note Trustee, the Issuer Security Trustee, the Issuer Administrator, the Reinsurer Administrator, the Lead Manager, the Agent Bank, the Swap Provider, the Principal Paying Agent, the Irish Paying Agent, the Account Bank, the Reinsurer Investment Manager and Custodian, the Issuer Cash Manager, the Issuer Administrator, the Reinsurer Administrator, Tillinghast, the Reinsurer, New Barclays Life, BLAC, Barclays or any of its affiliates, or any other company in the same group of companies as, or affiliated to, Barclays or any other company in the same group of companies as, or affiliated to, the Issuer. Neither the delivery of this Offering Circular nor any sale, allotment or solicitation made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer, the Reinsurer, New Barclays Life, Barclays or Ambac or in the other information contained herein since the date hereof or that the information contained herein is correct at any time subsequent to the date hereof.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or any State securities laws, and include Notes in bearer form which are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States or for the benefit or account of, or to, any U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable State securities laws.

Other than the application to list the Notes on the Official List of the Irish Stock Exchange, the approval of this Offering Circular as listing particulars in accordance with the requirements of the Regulations and the delivery of a copy of this Offering Circular to the Registrar of Companies in Ireland for registration, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular (or any part thereof) comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see “*Subscription and Sale*” below.

Particular attention is drawn to the section herein entitled “*Investment Considerations*” and “*Summary of the Transaction Documents – Trust Deed*”.

The Base Case (as defined below) projections included under “*The Base Case*” below and in Appendix 5 may be ‘forward looking statements’ within the meaning of applicable securities laws. These projections and statements may relate to matters such as assumptions about future experience, including tax, early termination rates, paid up rates, mortality, morbidity, expenses, reinsurance and legislation as well as other factors beyond New Barclays Life’s control. Projections and forward-looking statements are subject to inherent uncertainties and risk. In light of these risks and uncertainties, actual events and results may vary significantly from those included in, or contemplated or implied by, such projections and forward looking statements. Prospective investors are cautioned not to place undue reliance on such statements.

The projections under “*The Base Case*” below and in Appendix 5 (and such projections as referred to elsewhere in this document) set out (or refer to) (i) a base case (the “**Base Case**”) and (ii) certain scenarios included under “*The Base Case – Sensitivity Analysis*”.

- (a) The Base Case is based on the Base Case Assumptions (as defined below). The Base Case Assumptions relating to discontinuance (being those relating to mortality, morbidity and persistency rates, and paid-up rates all as described below) represent a reasonable estimate, as at 31 December 2002 (the “**Base Case Date**”) (adjusted, in the case of persistency only, to the extent considered appropriate by New Barclays Life, to take into account actual experience of WLAC and BLAC to 30 June 2003), for New Barclays Life made in accordance with actuarial practice which takes account of the historic experience of New Barclays Life, WLAC and BLAC and, in the case of mortality and morbidity, of information relating to the life assurance industry in respect of comparable business generally available to New Barclays Life as at the Base Case Date; the Base Case Assumptions relating to investment returns, expense inflation and the risk free investment rate, (being those related to the long term estimated investment returns by asset class, the future investment return assumption and long term asset allocation assumption, all as described under “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*” below) together represent a reasonable long term estimate for the projection of the Relevant Regulatory Surplus Amounts as at the Base Case Date, for New Barclays Life having regard to conditions at the time as at which the determination was made and made in accordance with actuarial practice. The Base Case Assumptions relating to other matters have been determined in relation thereto on the basis as described in “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*” below.
- (b) Towers, Perrin, Forster & Crosby, Inc., trading as Tillinghast-Towers Perrin (“**Tillinghast**”) consider the Base Case Assumptions to be reasonable as at the date as at which they were made (see “*Actuaries’ Report*” below).
- (c) The Base Case Assumptions (which are long term assumptions) are considered by New Barclays Life and Tillinghast to be reasonable at the date of this Offering Circular, taken as a whole over the period to the expected final repayment of the Notes; to the extent that changes in investment returns generally have occurred since the date as at which the Base Case Assumptions were made, New Barclays Life and Tillinghast consider that such changes are not likely to result in a reduction in the amount of Aggregate Relevant Regulatory Surplus projected in the Base Case.
- (d) The scenarios set out under “*The Base Case – Sensitivity Analysis*” and in Appendix 5 are designed to illustrate the effects of the variability of certain specific Base Case Assumptions on the Base Case projections, and are not intended to be projections, estimates, forecasts or forward looking statements or indications of the likelihood that these scenarios may occur. These scenarios do not purport to be comprehensive, are not based on any view of BLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or any other person as to the likelihood of their occurrence, are not the worst case scenarios which could prevail and do not reflect variations in anything other than the relevant Base Case Assumptions; other scenarios may show different effects on the Base Case projections (and, accordingly, the ability of the Issuer to pay interest on and to redeem the Notes may differ from the scenarios illustrated and may be worse).

Actual future experience is likely to differ from that assumed in the calculation of the Base Case, and such variations may be material. Consequently, the inclusion of the Base Case projections herein should not be regarded as a representation by BLAC, WLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or

any other person that the projections of the Relevant Regulatory Surplus Amounts over this period, or the projection of Relevant Regulatory Surplus Amount in respect of any particular Calculation Period, will be achieved.

None of New Barclays Life, BLAC, WLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, the Lead Manager or any of their respective affiliates or any other person undertakes any obligation to update any forward looking statement contained herein.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Lead Manager or any of them to subscribe or purchase any of the Notes.

In this Offering Circular all references to *Pounds, Sterling* or *£* are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland, all references to *U.S. dollars* or *\$* are to the lawful currency for the time being of the United States of America, and references to *euro, euros, Euro and €* are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

In connection with the issue and distribution of any tranche of Notes, Barclays Capital (the “Stabilisation Manager” or any person acting for it), may over-allot or effect transactions with a view to supporting the market price of the Notes of which such tranche forms part at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilisation Manager or any person acting for them to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period and will be carried out in accordance with all applicable laws and regulations.

## CONTENTS

	<i>PAGE</i>
EXECUTIVE OVERVIEW.....	6
TRANSACTION SUMMARY .....	16
INVESTMENT CONSIDERATIONS .....	29
RELEVANT REGULATORY SURPLUS.....	45
THE BASE CASE.....	60
ACTUARIES' REPORT .....	66
SUMMARY OF THE TRANSACTION DOCUMENTS .....	69
USE OF PROCEEDS.....	128
BLAC, WLAC AND NEW BARCLAYS LIFE .....	129
NEW BARCLAYS LIFE.....	131
REINSURER .....	133
BARCLAYS.....	146
ISSUER .....	147
AMBAC ASSURANCE UK LIMITED.....	151
AMBAC ASSURANCE CORPORATION .....	153
RELATIONSHIP BETWEEN AMBAC ASSURANCE UK LIMITED AND AMBAC ASSURANCE CORPORATION.....	158
FORM OF AMBAC FINANCIAL GUARANTEE .....	159
TERMS AND CONDITIONS OF THE NOTES .....	166
FORM OF THE NOTES.....	200
TAXATION .....	201
SUBSCRIPTION AND SALE.....	206
GENERAL INFORMATION .....	208
APPENDIX 1 – HISTORIC PERFORMANCE OF THE FUNDS .....	212
APPENDIX 2 – FINANCIAL STATEMENTS OF AMBAC ASSURANCE UK LIMITED .....	214
APPENDIX 3 – FINANCIAL STATEMENTS OF WLAC.....	245
APPENDIX 4 – FINANCIAL STATEMENTS OF BLAC.....	270
APPENDIX 5 – BASE CASE AND SENSITIVITY ANALYSIS TABLES.....	296
APPENDIX 6 – POLICY DESCRIPTIONS.....	303
APPENDIX 7 – CONTENTS OF INVESTOR REPORT .....	309
APPENDIX 8 – APPLICATION FORM.....	311

## EXECUTIVE OVERVIEW

*This section contains a brief overview of the transactions described elsewhere in this Offering Circular. It is not complete and omits significant detail and is therefore qualified in its entirety by reference to other information appearing elsewhere in this Offering Circular. It should be read with caution and attention is drawn in particular to the section in this Offering Circular entitled "Investment Considerations" commencing on page 30. Defined terms used in this section have the meaning given to them elsewhere in this Offering Circular; an index of defined terms appears at the end of this Offering Circular.*

### **Background to and purpose of the financing**

In October 2000 Barclays PLC acquired Woolwich plc and its subsidiaries, including a company then known as Woolwich Life Assurance Company Limited ("**WLAC**"). Barclays already had its own life assurance subsidiary, BLAC Limited ("**BLAC**") (then known as Barclays Life Assurance Company Limited). These two companies carried on a broad life insurance and pensions business, focussed principally on customers and prospective customers of Barclays (and Woolwich plc); neither carried on (or carry on) a "with profits" business.

In 2001, WLAC and BLAC ceased accepting applications for new business following a decision by Barclays to distribute the life assurance products of Legal & General Group PLC through its tied outlets. Following this decision, it was decided to merge the businesses of BLAC and WLAC in order to generate operating synergies and investment management and capital efficiencies.

The merger of the two businesses was effected on 26 September 2003 (the "**Scheme Date**"), when the business of BLAC was transferred to WLAC under a transfer made pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Scheme Transfer**"). For the period following the Scheme Date, WLAC is referred to as "**New Barclays Life**"; for the period to and including the Scheme Date it is referred to as WLAC. New Barclays Life is a wholly owned subsidiary of Barclays.

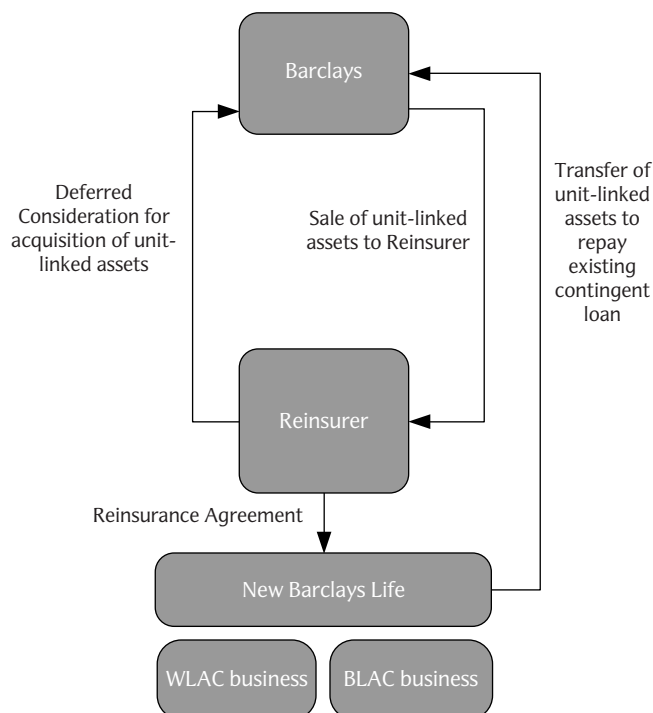
As part of the restructuring, Barclays formed the Reinsurer, a company incorporated in Ireland and established for the purpose of providing the reinsurance described in this Offering Circular to New Barclays Life. The Reinsurer is a wholly owned subsidiary of New Barclays Life.

At the time of the Scheme Transfer, contingent loans originally made by Barclays to BLAC and WLAC were repaid in an amount of £752.5 million. The repayment was made by transferring assets worth £752.5 million to Barclays consisting of £752 million of unit-linked assets and £0.5 million of surplus assets. At the same time Barclays agreed to sell the £752 million unit-linked assets to the Reinsurer for £752 million left outstanding as a debt (the "**Deferred Consideration**"). These assets were the assets which initially backed the unit-linked reinsurance of the unit-linked business under the Reinsurance Agreement, restoring the regulatory solvency position of New Barclays Life to the position it would have been had the contingent loans not been repaid.

On 1 October 2003, Barclays made a loan (the "**Bridging Contingent Loan**") to the Reinsurer in an amount of £752 million plus accrued interest on the Deferred Consideration from the proceeds of which the Reinsurer made payment in full of the Deferred Consideration and interest accrued on it. Repayment of the Bridging Contingent Loan is required to be made solely from the available funds of the Reinsurer, the recourse of Barclays against the Reinsurer being limited to those funds.

The purpose of the transactions described in this Offering Circular is to refinance the funding provided to the Reinsurer by Barclays which enabled the Reinsurer to provide reinsurance to New Barclays Life. The reinsurance, which was provided as part of the restructuring of BLAC and WLAC (which became effective on 26 September 2003), is taken into account in determining the regulatory solvency position of New Barclays Life.

The effect of the Scheme Transfer summarised above may be represented as follows:



#### Application of principal funds raised by the Issuer

Gracechurch Life Finance p.l.c. (the “**Issuer**”) is a special purpose public company limited by shares which is newly incorporated in Ireland and was established for the purpose of providing long-term finance to the Reinsurer to enable the Reinsurer to fund its obligations under the reinsurance described in this Offering Circular.

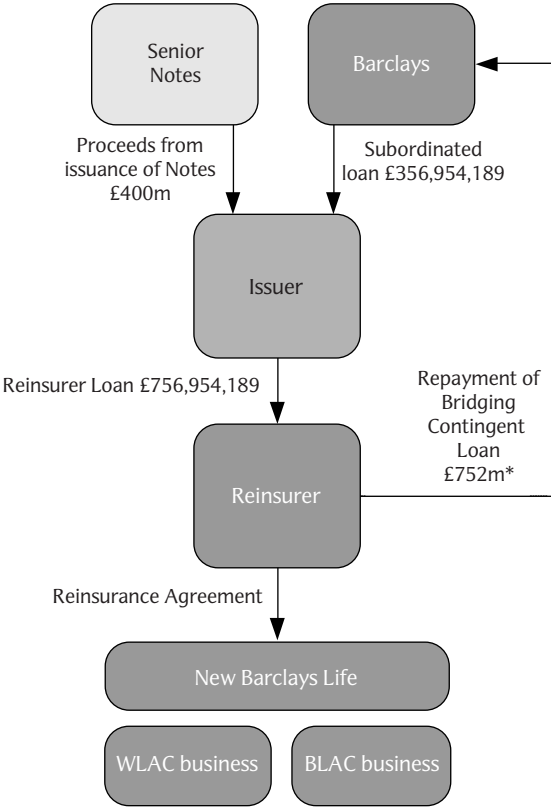
The purpose of the long-term capital markets financing raised by the Issuer through the issuance of the Notes is to provide part of the funding required for the Reinsurer in part, to repay the Bridging Contingent Loan owed to Barclays.

Under the proposed principal financing transactions:

- (a) The Issuer will raise £756,954,189 of finance by issuing £400 million in aggregate principal amount of Notes and borrowing £356,954,189 from Barclays under the Subordinated Loan Agreement.
- (b) The Issuer will on-lend the £756,954,189 so raised to the Reinsurer under the Reinsurer Loan Agreement.
- (c) The Reinsurer will use the amount received to repay the £752 million Bridging Contingent Loan and Interim Funding Accrued Interest.

“**Interim Funding Accrued Interest**” means interest on the Deferred Consideration and Bridging Contingent Loan from 26 September 2003 to the Closing Date.

The effect of the application of funds raised by the Issuer summarised above may be represented as follows:



\* Plus Interim Funding Accrued Interest of £4,954,189

**Redemption of Notes**

New Barclays Life is required to make payments out of the “**Relevant Regulatory Surplus Amount**” to the Reinsurer each year, as described in more detail in this Offering Circular, see “*Summary of the Transaction Documents – Reinsurance Agreement*”. For an overview of the Relevant Regulatory Surplus Amount, see “– *The Relevant Regulatory Surplus Amount*” and “– *Principal factors likely materially to affect the amount of surplus*” below in this section. The Relevant Regulatory Surplus Amount for each year is based on the surplus emerging after 30 November 2002 in New Barclays Life, subject to certain adjustments and assumptions. Surplus is, very broadly, the excess cash flow emerging from the business of New Barclays Life determined by reference to the Returns which New Barclays Life is required to submit.

The Reinsurer will use the Relevant Regulatory Surplus Amount it receives to pay its costs and expenses in accordance with the priorities of payments set out in the Reinsurer Deed of Charge, including paying interest on and repaying principal of the Reinsurer Loan Agreement to the Issuer.

Interest and principal received by the Issuer from the Reinsurer under the Reinsurer Loan Agreement (together with receipts under the Swap Agreement and certain other amounts) will be used by the Issuer to fund its costs and expenses, including payment of interest on and repayment of principal of the Notes, in accordance with the Issuer’s relevant priorities of payment set out in the Issuer Deed of Charge.

The Notes will benefit from a financial guarantee provided by Ambac of Scheduled Interest and Ultimate Principal. At the date of this Offering Circular, Ambac’s claims paying ability is rated AAA by S&P and Aaa by Moody’s.

**The Reinsurance Agreement**

The Reinsurance Agreement under which the reinsurance is provided, was entered into between the Reinsurer and WLAC/New Barclays Life on 9 September 2003 and became unconditional on the Scheme Date.



Under the Reinsurance Agreement, the Reinsurer provides reinsurance of certain liabilities and risks of New Barclays Life.

New Barclays Life will be required to apply the Relevant Regulatory Surplus Amount in the manner set out in “*Summary of the Transaction Documents – Reinsurance Agreement – Application of Relevant Regulatory Surplus Amount*”. Amounts applied under the Reinsurance Agreement will be credited to the Reinsurer’s Reinsurer Transaction Account. The Reinsurer’s Reinsurer Transaction Account is secured in favour of, *inter alios*, the Issuer, and the funds in it are not (ignoring de minimis amounts) available to be paid to New Barclays Life to fund the Reinsurer’s reinsurance obligations prior to repayment of the Reinsurer Loan.

The liability of the Reinsurer to New Barclays Life under the Reinsurance Agreement is limited recourse to the assets held by it as security for respective parts of the Reinsurance Agreement, all as described in more detail in this Offering Circular, see “*Summary of the Transaction Documents – Reinsurance Deed of Charge*”. These assets do not include the amount paid by New Barclays Life to the Reinsurer out of the Relevant Regulatory Surplus Amount (ignoring de minimis amounts), which is therefore available only to be applied (after deduction of certain costs and expenses in accordance with the Reinsurer’s priorities of payment) in paying interest on and repaying principal of the Reinsurer Loan until the Reinsurers Loan is repaid.

The obligation of New Barclays Life to pay the Relevant Regulatory Surplus Amount is an unsecured obligation of New Barclays Life which ranks *pari passu* with other unsecured creditors other than to creditors, including policyholders, which are preferred by law (including under The Insurers (Reorganisation and Winding Up) Regulations 2003 (SI 1102/2003)).

### **The Relevant Regulatory Surplus Amount**

The calculation of the Relevant Regulatory Surplus Amount for each Calculation Period will be made by New Barclays Life. However, certain procedures have been established to ensure that the interests of Ambac (and, following the occurrence of an Ambac Termination Event, the Noteholders) are taken into account in the process. A description of the process is set out under “*Summary of the Transaction Documents – Subordinated Loan Agreement – Process for determining Relevant Regulatory Surplus Amounts*”.

The contribution of the principal items contributing to surplus emerging in a period are summarised under “*Relevant Regulatory Surplus – Principal factors contributing to surplus emerging*”. The principal risks in relation to surplus emerging are then dealt with in the section headed “*Relevant Regulatory Surplus – Principal Risks to the emergence of surplus*”. The following is a very brief overview of the projected Base Case and the principal factors likely materially to affect the amount of surplus.

### **The Base Case**

The Base Case is a projection of the Relevant Regulatory Surplus Amounts of New Barclays Life based on assumptions and other factors described in more detail under “*The Base Case*”. The purpose of the Base Case is to indicate, based on the assumptions and other factors described in this Offering Circular, the cash flow projected to be available to be paid by New Barclays Life to the Reinsurer under the Reinsurance Agreement.

The basis for the assumptions and the other significant relevant factors used in determining the Base Case are set out under “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*”. Actual future experience is, however, likely to differ from that projected under the Base Case for the reasons set out in this Offering Circular.

The section entitled “*The Base Case – Sensitivity Analysis*” and Appendix 5 outline the effect on the projected Base Case if the Base Case Assumptions are subjected to certain variations as described herein.

The following table sets out the Base Case for this Offering Circular projected for the period to the Final Maturity of the Notes:

<i>Calculation Period ending 30 November</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Base Case Amortisation Profile<sup>4</sup></i>
	<i>(all figures in £000,000)</i>			
2003	915	124	11	287
2004	868	100	18	205
2005	817	90	13	128
2006	773	84	9	53
2007	733	80	3	0
2008	694	72	0	0
2009	662	70	0	0
2010	629	67	0	0
2011	598	64	0	0
2012	567	61	0	0
2013 onward <sup>5</sup>	539	835	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the "Financing Rate"). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Base Case Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Base Case Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## Overview of the Policy types

The underlying policies of New Barclays Life can be divided into the following categories:

- unit-linked investment products (such as endowment policies, single premium savings policies and universal whole of life policies);
- unit-linked pension products (such as personal pension plans and group personal pension plans);
- conventional non-participating life products (such as life insurance, critical illness, disability or permanent health insurance, and guaranteed investment bonds);
- conventional non-participating pension products (such as life insurance, disability premium waiver and annuities).

Neither BLAC nor WLAC wrote profit participating ("with profits") contracts.

Save as described below, none of the unit-linked life or pensions policies offers any guarantees regarding investment performance. Only three small tranches of old unit-linked policies offer a guarantee on maturity benefits. The Barclaybond Assured Savings Plan, the Unicorn Assured Savings Plan and the Barclays Unicorn Linked Building Society Plan, policies written between 1965 and 1975, offered a small guarantee which consisted of a guarantee at maturity of a return of premiums. At 30 June 2003 there were 4,574 such policies in-force with a bid value of units of £41.4m and a guaranteed maturity benefit of £13.7 million for which reserves considered appropriate are held.

Neither BLAC nor WLAC wrote pensions contracts containing onerous annuity rate guarantee options.

The following table summarises certain statistics relating to the above categories, including the value of the projected Relevant Regulatory Surplus Amounts allocated to such categories of policies.

### Summary of In-Force Products

<i>Product Class</i>	<i>In-force Premium at 30/11/2002 (£m)</i>	<i>Non-Unit Reserves at 30/11/2002 (£m)</i>	<i>Unit Reserve at 30/11/2002 (£m)</i>	<i>Approximate Share of Aggregate Relevant Regulatory Surplus at 31/10/2003<sup>1</sup></i>	<i>Aggregate Relevant Regulatory Surplus at 31/10/2003 (£m)</i>
Unit-linked Life Products	186.7	53.9	1,379.9	28%	260
Unit-linked Pension Products	177.8	70.3	2,897.5	42%	387
Conventional Non-participating Life Products	76.5	454.4	—	15%	136
Conventional Non-participating Pension Products (including annuity business)	1.6	464.7	—	8%	68
Other reserves and provisions	—	11.6	32.6	7%	64
<b>Total</b>	<b>442.6</b>	<b>1,054.9</b>	<b>4,310.0</b>	<b>100</b>	<b>915</b>

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum, being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum). The 2003 value is discounted to 31 October 2003.

### Principal factors affecting the amount of surplus

New Barclays Life is divided, in accordance with regulatory requirements, into a shareholders' fund and a long-term business fund. The long-term business fund is the principal operating fund of the life assurance company. The reinsurance of New Barclays Life with the Reinsurer is attributed solely to its long-term business fund and payments in respect of that reinsurance (i.e. the Relevant Regulatory Surplus Amount) will emerge solely from New Barclays Life's long-term business fund.

A UK life assurance company is required in accordance with regulations to determine each year the value of the assets and liabilities of its long-term business fund, the excess being surplus. To the extent that surplus is not transferred to the shareholders' fund, surplus is retained to support the long-term business fund. Under current legislation, surplus can only be transferred to the shareholders' fund by resolution of the board of directors of a life assurance company on receipt of an appropriate valuation report from the appointed actuary of the life assurance company and presentation of regulatory returns to the Financial Services Authority.

The surplus arising from the operations of the long-term business fund represents the aggregation of the following items taken into account in the period:

- premiums received;
- investment return;
- claims and amounts payable on maturity;
- surrenders and payments on discontinuance;
- taxes incurred;
- expenses;
- reinsurance receipts;
- reinsurance premiums; and
- change in reserves not reflected in the above.

Essentially, surplus arises from the net amount of premiums, investment return and claims and other amounts referred to above arising in a period and when the corresponding movements in reserves in that period are not equal, a positive or negative amount will be taken into account in the calculation of surplus, and therefore the Relevant Regulatory Surplus Amount, in such period.

The principal risks to surplus (which are described in more detail below under “*Relevant Regulatory Surplus – Principal factors contributing to surplus emerging*” and “*– Principal risks to the emergence of surplus*”) include:

- Investment performance: In the case of the unit-linked products, the annual management charge is calculated as a percentage of the value of units allocated to policies on a daily basis; accordingly the amount of the annual management charge will be affected by, *inter alia*, investment performance, including daily volatility in investment performance. The main investment return risks in respect of conventional non-participating (that is, non-unit-linked) business (life and pensions including annuities) are the risks that interest rates move unfavourably to the rates assumed for the policy, or that assets are not sufficiently well matched to liabilities or that assets default, in each case resulting in a corresponding reduction in surplus.
- Persistency (early termination): Persistency is a term used to describe the situation whereby policies terminate earlier than expected, otherwise than due to death or critical illness or through the retirement of the insured. For unit-linked policies, the principal effect is to reduce the assets allocated to policies and accordingly the annual management charge for those assets. For conventional non-participating policies (other than annuities), the effect may give rise to a short term increase in surplus arising from a release of expense and mortality/morbidity reserves but the longer term reduction in surplus is commonly greater.
- Mortality and morbidity risks: Mortality risk (other than in respect of annuities, which is dealt with under “*– Longevity*” below) is the risk of the insured dying; morbidity risk is the risk of the insured suffering a critical illness or disability. In relation to conventional non-participating products and the risk benefit component of unit-linked products (such as life insurance, critical illness, permanent health insurance and disability), the greatest risk is that mortality and/or morbidity levels are higher than assumed at the time of setting the reserves (or the last review of premiums or charges, where this is permitted) with the result that underwriting profit is lower than projected and reserves prove to be insufficient with the result that additional reserves need to be set aside and surplus is further reduced as a result.
- Longevity: For annuity business, surplus emerges as the difference between reserves established based on interest rate, expenses and mortality assumptions set when the annuity is granted and actual experience. In particular, if annuitants live longer than assumed in the assumptions, reserves may need to be strengthened and surplus would thereby be reduced. The life expectancy of annuitants has been increasing and this may be expected to continue; reserves already make an allowance for a level of improvement in life expectancy of annuitants. The risk remains, however, that actual improvement is greater than that currently reserved for.
- Change of reserving basis: New Barclays Life has to calculate and hold reserves appropriate for each policy. There are two types of reserve – unit reserves and non-unit reserves. Unit reserves show the value of assets allocated to a policy and increases or decreases in the value of those assets is reflected in the value of the unit reserves; non-unit reserves are the other reserves set aside for the business. It is unlikely that the valuation basis for determining the unit reserves will be altered. If the valuation basis for determining reserves is altered, the change may lead to an increase or fall in the amount of reserves and this will reduce or increase surplus. The timing of the emergence of surplus will therefore be affected by any changes to the valuation basis for determining reserves. Changes to such basis may occur in response to changing past or future expected experience or changes to requirements arising from regulation or practice or changes in the tax regime. Actual future experience will determine the extent to which any change of reserves represents an actual reduction in surplus rather than a deferral of surplus.

Some protection against changes in the valuation basis for determining reserves is provided by regulation which provides that the method of calculation of the amount of the liabilities and the assumptions used must not be subject to discontinuities from year to year arising from arbitrary changes. In addition, the procedure under which the Relevant Regulatory Surplus Amount is determined provides for Ambac (for so long as Ambac is a Controlling Creditor, and thereafter the Note Trustee) to be able to consider changes to the reserving basis and

where a change is not a Permitted Change, to require that Barclays makes a Further Advance under the Subordinated Loan Agreement to reflect the difference to the Relevant Regulatory Surplus Amount (see “*Summary of the Transaction Documents – Subordinated Loan Agreement – Process for determining Relevant Regulatory Surplus Amounts*”).

- Expenses: The higher expenses are, the lower surplus will be. New Barclays Life has, with a view to containing expense inflation, outsourced certain policy administration services to Liberata UK Limited at a fixed fee per policy, subject to an inflation adjuster linked to the retail prices index and national average earnings indices and in September 2003 outsourced certain actuarial services to a firm of consulting actuaries. To the extent that expense inflation exceeds that assumed in setting reserves, expense inflation remains a risk in relation to expenses which have not been outsourced.
- Taxation: In principle, tax on investment income and realised capital gains for life products and on profits for pensions products reduces surplus while relief for the annual administration expenses of life products increases surplus by reducing the effective amount of such expenses. Provision is also made for tax on unrealised capital gains attributable to life policies within unit-linked funds. Any variation between the actual and assumed provision is a cost/release to that fund. There are some old contracts for which such provision for tax on capital gains lies outside the investment funds but prudent reserves are held for such liability and deductions from contracts are effectively discretionary. Rates of taxation on life business and pensions profits, and the basis for taxation may change in the future; accordingly, the amount of surplus could be reduced as a result of changes in tax law (including rates of tax).
- Mis-selling: Liabilities may arise from mis-selling claims, resulting in a reduction of surplus. Under the Subordinated Loan Agreement, Barclays will agree either to advance to the Issuer Further Advances to compensate for the reduction in surplus emerging each year as a result of, or to provide additional funds to New Barclays Life so that it can pay for or establish a reserve for, actual or expected compensation for, and costs of, such mis-selling so that liabilities for mis-selling do not materially adversely affect the emergence of surplus (see “*Summary of the Transaction Documents – Subordinated Loan Agreement – Deemed Warranties*”). There is a secondary risk that policies mis-sold will lapse or become paid up, reducing the amount of surplus emerging in the future; no compensation from Barclays is required in respect of such effects.

#### **Ancillary financing agreements of the Issuer**

Barclays (or another service provider) will enter into certain ancillary arrangements with the Issuer relating to the hedging of interest rate risk, the provision of liquidity and the funding of certain initial expenses.

Interest on the Reinsurance Loan Agreement will be based on a fixed rate; the Issuer’s obligations under the Notes are floating rate. Accordingly, the Issuer will enter into the Swap Agreement with Barclays to hedge its floating rate obligations under the Notes. Ambac is guaranteeing the payment of certain of the Issuer’s obligations under the Swap Agreement.

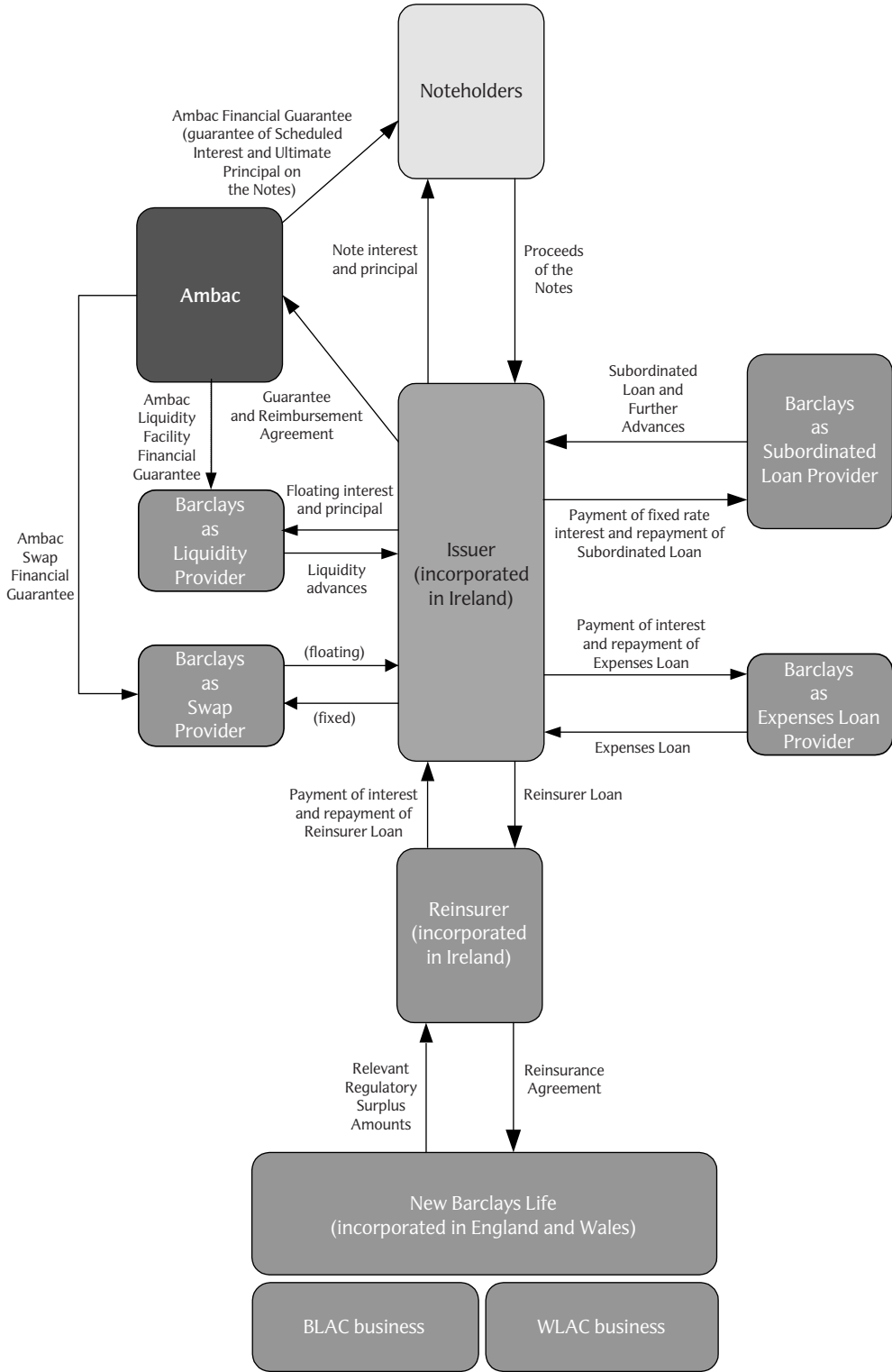
In addition to the Swap Agreement entered into with Barclays, the Issuer will enter into, *inter alia*:

- a Liquidity Facility Agreement with the Liquidity Provider (expected to be Barclays) (to fund up to two years’ payments under the Swap (and other senior expenses) (resulting in the Swap Provider paying the floating rate under the swap to enable interest on the Notes to be paid); Ambac is also guaranteeing to Barclays the repayment of principal and interest under the Liquidity Facility Agreement);
- an Expenses Loan Agreement with Barclays (to fund the initial expenses and the reserve account of the Issuer);
- a Guarantee and Reimbursement Agreement with Ambac (which deals with certain of Ambac’s rights); and
- certain administration and other agreements related to the financing and its administration, as described in this Offering Circular.

Under the Subordinated Loan Agreement Barclays if certain deemed representations, warranties and covenants in relation to New Barclays Life and the Reinsurer are incorrect, it may give rise to an obligation on Barclays to make a Further Advance to the Issuer to compensate it for the reduction in the Relevant Regulatory Surplus Amount due to the relevant breach or, in the case of the

Reinsurer, due to an inability on the Reinsurer to perform certain of its obligations. A detailed description of the deemed representations, warranties and covenants is set out in “*Summary of the Transaction Documents – Subordinated Loan Agreement – Deemed Warranties*” and include a requirement that New Barclays Life act as a prudent insurer in addition to dealing with specific matters such as mis-selling, persistency and lapse. The existence of a Breach is subject to materiality thresholds and the timing of payments in respect of any Breach, as well as how reductions in the Relevant Regulatory Surplus Amount are dealt with, depend on the nature and consequence of the Breach. The provisions are summarised under “*Summary of the Transaction Documents – Subordinated Loan Agreement – Funding of Breaches*”.

The following diagram summarises the above financing arrangements at the Closing Date following the issue of the Notes:



## TRANSACTION SUMMARY

*The information in this section is a summary of the principal features of the issue of the Notes and certain other related transactions. This summary is not complete and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. Defined terms used in this section have the meaning given to them elsewhere in this Offering Circular; an index of defined terms appears at the end of this Offering Circular.*

### KEY TRANSACTION PARTIES

- Issuer:** Gracechurch Life Finance p.l.c (the “**Issuer**”) is a public company limited by shares recently incorporated in Ireland under the Irish Companies Acts, 1963 to 2001. The Issuer is a special purpose company whose primary purpose is to issue the Notes and enter into the Subordinated Loan Agreement, Expenses Loan Agreement, Liquidity Facility Agreement, Swap Agreement and Reinsurer Loan Agreement, using the proceeds of the Notes and Subordinated Loan to make the Reinsurer Loan to the Reinsurer. The Issuer is established as an orphan company, the shares in which are held on trust for charitable purposes.
- New Barclays Life:** Barclays Life Assurance Company Limited, a company incorporated in England and Wales with registered number 151731, a wholly owned subsidiary of Barclays. **References in this Offering Circular to New Barclays Life are references to the company following the Scheme Date.**
- WLAC:** Barclays Life Assurance Company Limited (formerly known as Woolwich Life Assurance Company Limited), WLAC is the same legal entity as New Barclays Life. **References in this Offering Circular to WLAC are references to the company on or prior to the Scheme Date and the acquisition of the business of BLAC.**
- BLAC:** BLAC Limited, a company incorporated in England and Wales with registered number 858511, and, prior to a change of name following the Scheme Date, known as Barclays Life Assurance Company Limited (together with WLAC, the “**Policy Originators**” and each a “**Policy Originator**”).
- Barclays:** Barclays Bank PLC (“**Barclays**”) whose registered office is at 54 Lombard Street, London, EC3P 3AH.
- Reinsurer:** Barclays Reinsurance Dublin Limited (the “**Reinsurer**”), a company recently incorporated in Ireland under the Irish Companies Acts, 1963 to 2001. The Reinsurer’s primary purpose is to enter into the Reinsurance Agreement and ancillary arrangements and fund itself to enable it to provide the reinsurance under the Reinsurance Agreement. The Reinsurer is a wholly owned subsidiary of New Barclays Life.
- Reinsurer Investment Manager and Custodian:** Barclays Global Investors Limited or such other investment manager and custodian as may be appointed from time to time under the Reinsurer Investment Management and Custody Agreement (the “**Reinsurer Investment Manager and Custodian**”). The Reinsurer Investment Manager and Custodian may appoint a global Sub-Custodian and both the Reinsurer Investment Manager and Custodian and the global Sub-Custodian may appoint Sub-Custodians in individual locations.
- Ambac:** Ambac Assurance UK Limited (“**Ambac**”), a company incorporated in England and Wales which is authorised to issue, *inter alia*, financial guarantees, and is licensed to offer insurance services in the United Kingdom. At the date of this Offering



Circular, Ambac's claims paying ability is rated AAA by S&P and Aaa by Moody's. Ambac will guarantee the payment of Scheduled Interest and Ultimate Principal and will also provide separate financial guarantees in respect of certain of the Issuer's obligations under the Liquidity Facility Agreement and under the Swap Agreement.

**Subordinated Loan Provider:**

Barclays.

**Expenses Loan Provider:**

Barclays.

**Liquidity Provider:**

A financial institution which, as at the Closing Date, has, or is guaranteed by a person which has, a rating assigned to its unsecured, unsubordinated and unguaranteed debt obligations which meets the criteria published by S&P and Moody's (the "**Liquidity Requisite Rating**"). It is anticipated that Barclays will, as at the Closing Date, be appointed as the initial Liquidity Provider.

**Swap Provider:**

A financial institution which, as at the Closing Date, has, or is guaranteed by a person which has, a rating assigned to its (a) short-term unsecured, unsubordinated and unguaranteed debt obligations of A-1+ by S&P and (b) long-term unsecured, unsubordinated and unguaranteed debt obligations of A-1 or higher or its short-term unsecured and unsubordinated debt obligations of P-1 or higher by Moody's (the "**Swap Requisite Rating**"). It is anticipated that Barclays will, as at the Closing Date, be appointed as the initial Swap Provider.

**The Note Trustee, Issuer Security Trustee and Reinsurer Security Trustee:**

The Note Trustee and the Issuer Security Trustee (acting in separate capacities) will be The Bank of New York, London Branch acting through its office at One Canada Square, London, E14 5AL.

The Note Trustee (which expression includes its successors or any further or other trustee appointed pursuant to the Trust Deed) will be appointed to represent the Noteholders pursuant to a trust deed (the "**Trust Deed**") to be entered into on or about the Closing Date between the Issuer, Ambac and the Note Trustee.

The Issuer Security Trustee (which expression includes its successors or any further or other trustee appointed pursuant to the Issuer Deed of Charge) will hold the security granted under the Issuer Deed of Charge on behalf of the Issuer Secured Creditors (in such capacity, the "**Issuer Security Trustee**") and will be entitled (following the service of an Issuer Security Enforcement Notice and (for so long as Ambac is a Controlling Creditor) with the prior written consent of Ambac) to enforce such security and rights.

The Bank of New York, London Branch acting through its office at One Canada Square, London, E14 5AL will also act as security trustee under the Reinsurer Deed of Charge on behalf of the Reinsurer Secured Creditors (in such capacity, the "**Reinsurer Security Trustee**") (which expression includes its successors or any further or other trustee appointed pursuant to the Reinsurer Deed of Charge) and will be entitled (following the service of a Reinsurer Security Enforcement Notice) to enforce such security and rights.

**The Principal Paying Agent and Agent Bank:**

The Principal Paying Agent and the Agent Bank will be The Bank of New York, London Branch acting through its office at One Canada Square, London, E14 5AL. The Principal Paying Agent will provide paying agency services in respect of the Notes to the Issuer pursuant to an agency agreement (the "**Agency Agreement**") to be entered into on or about the Closing Date

between, *inter alios*, the Principal Paying Agent, the Agent Bank, the Issuer, the Security Trustee and the Note Trustee. The Agent Bank will provide calculation services in respect of the Notes to the Issuer pursuant to the Agency Agreement.

**The Irish Paying Agent:**

The Irish Paying Agent will be AIB/BNY Fund Management (Ireland) Limited having its specified office at Guild House, Guild Street, IFSC, Dublin, Ireland. The Irish Paying Agent (together with the Principal Paying Agent, the “**Paying Agents**” and together with the Agent Bank and the Principal Paying Agent, the “**Agents**”) will provide paying agency services in respect of the Notes to the Issuer pursuant to the Agency Agreement.

**The Issuer Administrator:**

The Issuer Administrator will be Structured Finance Management (Ireland) Limited (the “**Issuer Administrator**”). The Issuer Administrator will provide corporate administration services to the Issuer pursuant to a corporate administration agreement entered into on or shortly prior to the Closing Date with the Issuer (the “**Issuer Administration Agreement**”).

**The Reinsurer Administrator:**

The Reinsurer Administrator will be Barclays Management Services (Ireland) Limited having its specified office at 47-48 St. Stephen’s Green, Dublin 2, Ireland (the “**Reinsurer Administrator**”). The Reinsurer Administrator will provide corporate administration services to the Reinsurer pursuant to corporate administration agreement entered into on or shortly prior to the Scheme Date (the “**Reinsurer Administration Agreement**”).

**The Issuer Account Bank:**

The Issuer Account Bank will be a bank which, as at the Closing Date, is required to have a short-term credit rating of at least A-1 from S&P and P-1 from Moody’s. The Issuer Account Bank will be appointed by the Issuer to open and maintain bank accounts in the name of the Issuer (the “**Issuer Account Bank**”) and to provide banking services pursuant to a bank account agreement entered into on or about the Closing Date with, *inter alios*, the Issuer (the “**Issuer Account Bank Agreement**”). The initial Issuer Account Bank is expected to be The Bank of New York, London Branch.

**The Reinsurer Account Bank:**

The Reinsurer Account Bank will be a bank which, as at the Closing Date, is required to have a short-term credit rating of at least A-1 from S&P and P-1 from Moody’s. The initial Reinsurer Account Bank is Barclays acting through its office in Dublin. The Reinsurer Account Bank was appointed by the Reinsurer to open and maintain bank accounts in the name of the Reinsurer and to provide banking services pursuant to bank account agreements entered into on or about the Scheme Date with, *inter alios*, the Reinsurer (the “**Reinsurer Reinsurance Bank Account Agreement**”) and the “**Reinsurer Funding Bank Account Agreement**”).

**Issuer Cash Manager:**

The Issuer Cash Manager will be The Bank of New York, London Branch (the “**Issuer Cash Manager**”). The Issuer Cash Manager will provide cash management services pursuant to the Cash Management Agreement.

**Successors:**

References to any person shall include any successor thereto appointed from time to time.

## KEY CHARACTERISTICS OF THE NOTES:

	<i>Notes<sup>1</sup></i>
<i>Nominal Amount per Note</i>	£100,000
Total Nominal Amount	£400,000,000
Issue Price	100 per cent.
Interest Rate	LIBOR plus 0.40 per cent. per annum
Frequency of Payments of Interest	Quarterly
Frequency of Amortisation of Principal	Annually in the amount determined to be available to be paid in or towards redeeming the Notes in accordance with the Issuer Pre-Enforcement Priority of Payments, until all the Notes have been redeemed or provided for in full
Payment Dates for interest payments	15 January, 15 April, 15 July and 15 October of each year (or, if any such day is not a Business Day, the next succeeding Business Day), the first Interest Payment Date being 15 January, 2004
Payment Dates for principal payments	15 April of each year (or, if any such day is not a Business Day, the next Succeeding Business Day, the first such Interest Payment Date being 15 April 2004
Expected Average Life <sup>2</sup>	2.11 years
Expected Maturity Date	15 April 2008
Final Maturity Date	15 April 2013
Moody's Rating	Aaa
S&P Rating	AAA
Form at Issue	Bearer Form
Listing	Application for Listing of the Notes on the Irish Stock Exchange has been made
Clearing	Euroclear and Clearstream
Common Code	017920375
ISIN	XS0179203756

1 The Notes have the benefit of a financial guarantee from Ambac as to Scheduled Interest and Ultimate Principal.

2 See Estimated Average Life table in section headed *Estimated Average Life of the Notes*.

## DESCRIPTION OF THE NOTES

<b>Amount and title of the Notes:</b>	The £400,000,000 Floating Rate Secured Notes due 2013 (the “Notes”), will be issued on the Closing Date by the Issuer.
<b>Form, status and denomination of the Notes:</b>	<p>The Notes will constitute secured, direct, unconditional limited recourse obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, any person other than the Issuer (other than, in respect of the Ultimate Principal and Scheduled Interest, by Ambac). The Notes will be constituted by a trust deed (the “Trust Deed”) to be entered into between the Issuer, Ambac and the Note Trustee on the Closing Date. The Notes will all have the benefit of the same security and will rank <i>pari passu</i> and rateably without preference or priority among themselves.</p> <p>If certain amounts due from the Issuer are outstanding to Ambac pursuant to the Guarantee and Reimbursement Agreement, the Issuer’s obligations in respect thereof will rank in priority to certain of its obligations in respect of the Notes (see “<i>Terms and Conditions of the Notes – Status, Priority and Security</i>” below).</p> <p>The Notes will initially be represented by a temporary global note in bearer form (the “<b>Temporary Global Note</b>”) without coupons or talons attached and which will represent the aggregate principal amount outstanding of the Notes. The Temporary Global Note will be deposited on behalf of the subscribers of the Notes with the Common Depositary for Clearstream, Luxembourg and Euroclear on the Closing Date. Interests in the Temporary Global Note will be exchangeable on and after the date which is 40 days after the Closing Date (the “<b>Exchange Date</b>”) upon certification of non-US beneficial ownership by the relevant Noteholders for interests in the permanent global note (the “<b>Permanent Global Note</b>”) representing the Notes, in bearer form without coupons or talons, which will also be deposited with the Common Depositary. The Permanent Global Notes will be exchangeable for Definitive Notes only in certain limited circumstances described below. For a more detailed description of the Notes, see “<i>Terms and Conditions of the Notes</i>” below.</p> <p>The Issuer Deed of Charge contains provisions requiring the Issuer Security Trustee (except where expressly provided otherwise) to have regard to the interests of the Issuer Secured Creditors as a whole as regards all powers, trusts, authorities, duties and discretions of the Issuer Security Trustee but requiring the Issuer Security Trustee to have regard only to the interests of Ambac (for so long as Ambac is a Controlling Creditor) (other than in respect of Reserved Matters or any Basic Terms Modification) if in the Issuer Security Trustee’s opinion, there is a conflict between the interests of (A) Ambac and (B) any other Issuer Secured Creditor, and in all other cases while there are any Notes outstanding, to have regard only to the interests of the Noteholders if, in the opinion of the Issuer Security Trustee, there is a conflict between the interests of the Noteholders and the other Issuer Secured Creditors.</p>
<b>Recourse:</b>	The obligations of the Issuer under the Transaction Documents will be limited to the assets of the Issuer secured pursuant to the security created by the Issuer Deed of Charge.

## Security for the Notes:

The Issuer's obligations under the Notes (together with its obligations to certain of its other creditors, including Barclays under the Subordinated Loan, Ambac under the Guarantee and Reimbursement Agreement, the Liquidity Provider under the Liquidity Facility Agreement, the Expenses Loan Provider under the Expenses Loan Agreement and the Swap Provider under the Swap Agreement) will be secured by a deed of charge (the "**Issuer Deed of Charge**") which will create first priority fixed charges and a first priority floating charge over substantially all of the assets of the Issuer (the "**Issuer Security**") in favour of the Issuer Security Trustee for, *inter alios*, the Noteholders, the Note Trustee, Barclays, Ambac, the Liquidity Provider, the Expenses Loan Provider and the Swap Provider. The security created by the Issuer Deed of Charge will include:

- (i) an assignment by way of first fixed security of all its rights, title, interest and benefit in and to the Reinsurer Loan Agreement, the Subordinated Loan Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Issuer Account Bank Agreement, the Agency Agreement, the Guarantee and Reimbursement Agreement, the Issuer Administration Agreement, the Issuer Cash Management Agreement and the Reinsurer Deed of Charge (together, the "**Issuer Assigned Agreements**") and Other Secured Contractual Rights, and all rights in respect of and incidental thereto;
- (ii) a first fixed charge over all of its right, title interest and benefit, existing now or in the future, in and to all sums of moneys which may now be or hereafter are from time to time standing to the credit of the Issuer Accounts and any other bank account or book debt in which the Issuer may acquire any right, title, interest or benefit;
- (iii) a first fixed charge over all of its right, title, interest and benefit, existing now or in the future, in and to the Eligible Deposits that the Issuer may acquire or make, together with all moneys, income or proceeds payable in respect thereof; and
- (iv) a first floating charge over the whole of the undertaking of the Issuer and all of its property and assets, other than property and assets effectively charged by the first ranking fixed security.

The security constituted by the Issuer Deed of Charge will be enforceable after the expiry of appropriate grace periods in circumstances (each, an "**Issuer Event of Default**") which include non-payment of amounts due on the Notes, certain breaches of the Issuer's covenants set out in the Conditions, certain events related to the solvency of the Issuer and an Ambac Event of Default occurring.

Certain other obligations of the Issuer (including the amounts owing to (i) the Note Trustee under the Trust Deed, (ii) the Issuer Security Trustee and any Receiver under the Issuer Deed of Charge, (iii) the Issuer Account Bank under the Issuer Account Bank Agreement (iv) the Issuer Administrator under the Issuer Administration Agreement and (v) the Paying Agents and Agent Bank under the Agency Agreement) will also be secured by the security referred to above.

For a more detailed description of the provisions of the Issuer Deed of Charge, see “*Summary of Transaction Documents – Issuer Deed of Charge*” below.

**Use of proceeds:**

The Issuer will apply the gross proceeds of the issue of the Notes towards the discharge of its obligation to make the Reinsurer Loan to the Reinsurer under the Reinsurer Loan Agreement on the terms set out therein. No fees and expenses of the Issuer will be deducted from the gross proceeds of the issue of the Notes. An amount at least equal to the Issuer’s initial expenses in connection with the issuance and structuring of the Notes will be advanced by Barclays pursuant to the Expenses Loan Agreement. For further details, see “*Use of Proceeds*” below.

**Mandatory redemption by payment of Note Principal Payments:**

Under Condition 6(b), to the extent that the Issuer has sufficient funds available from Issuer Available Funds, after paying higher ranking amounts in the Issuer Pre-Enforcement Priority of Payments, the Issuer will apply such excess funds in redeeming the Notes. On each Interest Payment Date in April of each year, after paying amounts ranking higher in the Issuer Pre-Enforcement Priority of Payments, the amount payable out of Issuer Available Funds to redeem the Notes will be applied in accordance with the Issuer’s Pre-Enforcement Priority of Payments as follows:

- (a) first, in paying the Expected Amortisation Amounts on such Interest Payment Date;
- (b) second, in paying the Deferred Expected Amortisation Amounts on such Interest Payment Date;

and, after payment of current accrued interest on the Subordinated Loan and payment of interest and Expenses Loan Amortisation Amounts, as set out in the Issuer Pre-Enforcement Priority of Payment,

- (c) third, to pay amounts outstanding on the Notes.

**Redemption for Taxation or other reasons:**

If the Issuer at any time satisfies the Note Trustee and (for so long as Ambac is a Controlling Creditor) Ambac that:

- (i) on the next Interest Payment Date, (A) the Issuer would be required to deduct or withhold from any payment of principal or interest on the Notes (other than where the relevant holder has some connection with the United Kingdom or Ireland other than the holding of Notes or related coupons); (B) the Issuer would be required to deduct or withhold from any payment of principal, interest or other sum due and payable under the Subordinated Loan Agreement, the Liquidity Facility Agreement or the Expenses Loan Agreement; (C) the Issuer or the Swap Provider would be required to deduct or withhold from any payment under the Swap; (D) the Reinsurer would be required to deduct or withhold from any payment under the Reinsurer Loan Agreement or the Reinsurance Agreement or (E) New Barclays Life would be required to deduct or withhold from any payment under the Reinsurance Agreement, in each case any amount for or on account of any present or future taxes, duties, assessments or governmental charges of any nature imposed, levied, collected, withheld or assessed by the United Kingdom or Ireland or (in each case) any political sub-division of it or any authority of it or in it; or

- (ii) the Issuer, by reason of a change in tax law (or in the application or official interpretation of any tax law), would not be entitled to relief for tax purposes in the United Kingdom or Ireland for any amount which it is obliged to pay, or would be treated as receiving for tax purposes in the jurisdiction of tax residency of the Issuer an amount which it was not entitled to receive, under the Swap Agreement; or
- (iii) by reason of a change in law (or the application or official interpretation thereof), it has become or will become unlawful in the United Kingdom or Ireland for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Reinsurer Loan Agreement;

then the Issuer shall, in order to avoid the relevant event described in (i), (ii) or (iii) above, use all reasonable endeavours to arrange a substitution of a company incorporated in another jurisdiction as principal debtor under the Notes, which is approved in writing by the Note Trustee and the Subordinated Loan Provider, and subject to (i) obtaining the consent of Ambac (for so long as Ambac is a Controlling Creditor) and (ii) the Rating Agencies having confirmed that the ratings of the Notes (including the Unguaranteed Rating) in effect immediately prior to substitution would not be adversely affected by such substitution.

If the Issuer is unable to arrange such a substitution which would have the result of avoiding the relevant event described above, then the Issuer may, on any Interest Payment Date following its having satisfied the Note Trustee, the Subordinated Loan Provider and Ambac that such event has occurred, redeem all, but not some only, of the Notes at their Principal Amount Outstanding together with accrued but unpaid interest to (but excluding) the date of redemption subject to certain conditions, including as to its ability to fund the redemption of the Notes and the repayment of Subordinated Loan.

- Redemption upon enforcement:** Following service of an Enforcement Notice, the Notes will be redeemed in accordance with the Issuer Post-Enforcement Priority of Payments set out in Condition 3(j).
- Withholding tax:** Payments of interest, principal and premium (if any) in respect of the Notes will be made subject to any applicable withholding or deduction for or on account of any tax and none of the Issuer, Ambac, the Paying Agents or any other entity will be obliged to pay any additional amounts as a consequence thereof.
- Final redemption:** Unless previously redeemed in full, the Notes will be redeemed, at their then respective Principal Amounts Outstanding, together with accrued interest thereon, on the Interest Payment Date falling in April 2013 (the “**Final Maturity Date**”).
- Purchase of Notes:** The Issuer will not be permitted to purchase any of the Notes.
- Interest:** Interest will be payable on the Notes quarterly in arrear on the fifteenth day of January, April, July and October in each year (or if any such day is not a Business Day, the next succeeding Business Day) (each, an “**Interest Payment Date**”), commencing on the Interest Payment Date falling in January, 2004. Interest will be payable on the Notes by reference to successive interest periods (each, an “**Interest Period**”). The first Interest Period will commence on (and include) the Closing Date and will end on (but exclude) the Interest Payment Date falling in January 2004.

Each successive Interest Period will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date, subject in all cases to the detailed provisions of the Conditions in relation to Interest Periods.

The interest rates applicable to the Notes from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than, in each case, in respect of the first Interest Period in respect of which it will be determined by reference to a linear interpolation of two and three-month LIBOR) plus, in each case, the applicable Margin.

Interest on the Notes will be calculated for any period (including any Interest Period), on the basis of actual days elapsed and a 365-day year (or, if any portion of that Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365).

<b>Listing:</b>	Application has been made to admit the Notes to the Official List of the Irish Stock Exchange.
<b>Transfer restrictions:</b>	Subject to applicable laws and regulations, there are no transfer restrictions in respect of the Notes.
<b>Governing law:</b>	The Notes will be governed by English law.

#### SUMMARY OF OTHER PRINCIPAL DOCUMENTS

<b>Swap:</b>	<p>In order to exchange the interest receivable under the Reinsurer Loan, which is based on a fixed rate, for a rate related to three month Sterling LIBOR, the Swap Provider will, on or about the Closing Date, enter into a 1992 ISDA Master Agreement (Cross Border – Multicurrency) (the “<b>ISDA Master</b>”) together with a schedule thereto (the “<b>Schedule</b>”) and a confirmation thereunder (the “<b>Confirmation</b>”), and together with the Schedule and the ISDA Master, the “<b>Swap Agreement</b>”, and the transactions described thereunder being, the “<b>Swap</b>”) with the Issuer and the Issuer Security Trustee pursuant to which, subject as follows:</p> <ul style="list-style-type: none"><li>(a) on each Interest Payment Date the Swap Provider will pay to the Issuer an amount in aggregate under the Confirmation equal to the product of (i) the Swap Notional Principal in respect of such Interest Payment Date, (ii) the rate of interest on the outstanding Notes in the Interest Period ending on such Interest Payment Date and (iii) the actual number of days in such Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365); and</li><li>(b) on each Loan Interest Payment Date, the Issuer will pay to the Swap Provider an amount equal to the product of (i) the Swap Notional Principal in respect of the Swap Fixed Interest Period ending on such Loan Interest Payment Date, (ii) a fixed swap rate (the “<b>Swap Fixed Rate</b>”) and (iii) the actual number of days in such Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (y)</li></ul>
--------------	---



the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365); and (in respect of such Loan Interest Period, the “**Swap Scheduled Amount**” (such amount being the “**Swap Fixed Amount**” in respect of the Loan Interest Period ending closest to such Loan Interest Payment Date)).

In circumstances where the long-term, unsecured and unsubordinated debt obligations of Ambac (or its successor) are downgraded below A- by S&P or A3 by Moody’s and either a termination event has occurred under the Liquidity Facility or insufficient amounts are available under the Liquidity Facility to meet the amount payable in (b), the amount in (a) shall be rolled up (and accrue interest at the relevant rate in (a)(ii), on a compound basis) and be payable on the next Loan Interest Payment Date, such amount being set-off against the Swap Fixed Amount with only the net balance payable by the party owing the higher amount.

For this purpose:

“**Swap Notional Principal**” in respect of a Loan Interest Period or, as the case maybe, Interest Period is the principal amount outstanding on the Notes in respect of such Loan Interest Period or, as the case may be, Interest Period; and

“**Swap Fixed Interest Period**” means the period from (and including) a Loan Interest Payment Date (or in the case of the first Swap Fixed Interest Period, the Closing Date) to (and excluding) the immediately succeeding Loan Interest Payment Date.

**Liquidity Facility Agreement:**

On or about the Closing Date, the Liquidity Provider will enter into the Liquidity Facility Agreement with the Issuer pursuant to which the Liquidity Provider will provide a floating rate 364-day, renewable, liquidity facility under which the Issuer may draw to the extent that fixed payments under the Swap and payments ranking higher in the order of priority would be unpaid on an Interest Payment Date. The Liquidity Facility will be sized initially to fund (subject to the conditions to drawing being met) up to two years of payments on items falling under (A) to (G) of the Issuer Pre-Enforcement Priority of Payments and will decline as the outstanding principal amount of the Notes declines.

**Ambac Financial Guarantee:**

On or about the Closing Date, Ambac will provide a financial guarantee (the “**Ambac Financial Guarantee**”) in favour of the Note Trustee on behalf of the Noteholders from time to time pursuant to which Ambac guarantees the payment of Scheduled Interest and Ultimate Principal (see “*Form of Ambac Financial Guarantee*”).

**Ambac Liquidity Facility Financial Guarantee:**

The obligations of the Issuer under the Liquidity Facility will be guaranteed by Ambac under a separate financial guarantee (the “**Ambac Liquidity Facility Financial Guarantee**”) under which Ambac will pay interest (other than Liquidity Gross-up Amounts) on a current basis and, to the extent that the Liquidity Facility has been drawn and not repaid, pay principal on the earlier of the Final Maturity Date and the date on which the Notes are redeemed in full.

**Ambac Swap Financial Guarantee:**

The obligations of the Issuer to pay the fixed rate payable by the Issuer under the Swap Agreement will be guaranteed by Ambac under a separate financial guarantee (the “**Ambac Swap Financial Guarantee**”).

**Subordinated Loan Agreement:**

On or about the Closing Date, Barclays will lend £356,954,189 to the Issuer. By virtue of the Issuer Deed of Charge, payments of interest on the Subordinated Loan will be deferred to payments of Expected Amortisation Amounts on the Notes then due or past due and certain other amounts in accordance with the orders of priority set out in the Issuer Deed of Charge. To the extent interest on the Subordinated Loan is accrued and deferred it will be capitalised and will not be paid until the Notes have been repaid in full.

Subject as stated above, interest will be payable annually in arrear at 7.1 per cent. per annum (the “**Subordinated Loan Interest Rate**”) on each Loan Interest Payment Date out of Issuer Available Funds (see “*Summary of Transaction Documents – Subordinated Loan Agreement*”).

Interest will be payable subject to applicable withholding or deduction for or on account of tax.

Principal will be repayable on each Subordinated Loan Interest Payment Date on which the Issuer has funds available for such purpose. No principal is repayable in respect of the initial amount advanced under the Subordinated Loan while any principal is outstanding on the Notes or the Expenses Loan.

In certain circumstances, where Barclays has made a Further Advance, such Further Advance may be repayable in priority to the repayment of principal of the Notes. Broadly, this will be the case where Barclays has made a Further Advance where the Relevant Regulatory Surplus Amount is reduced because of a Breach leading to a deferral of the Relevant Regulatory Surplus Amount and such deferral ceases (in whole or part) resulting in an increase in the Relevant Regulatory Surplus Amount in later years. (see “*Summary of Transaction Documents – Subordinated Loan Agreement*”).

**Further Advances:**

Barclays may, and in certain circumstances will be required to, make Further Advances under the Subordinated Loan.

The primary circumstance in which a Further Advance may be made is where there is a Breach or Potential Breach of a Deemed Warranty which adversely affects the Relevant Regulatory Surplus Amount in a particular year. In such circumstance, where the effect of such Breach or Potential Breach on the amount of surplus has not been rectified (by additional funds having been made available to New Barclays Life or the Reinsurer), Barclays will be required, subject to certain threshold levels, to make a Further Advance. The Further Advance shall be of such amount as equals the difference between what the Relevant Regulatory Surplus Amount would have been if there had been no such Breach or Potential Breach and what it is. The Further Advance to be made may be deferred (in whole or in part) in certain circumstances if the Relevant Regulatory Surplus Amount, notwithstanding the Breach or Potential Breach, remains sufficient to provide for payment of the Expected Amortisation Amounts then due or past due or if Retained Surplus can be used (see “*Summary of Transaction Documents – Subordinated Loan Agreement*”).

**Expenses Loan Agreement:**

On or about the Closing Date, Barclays will lend £7,400,000 to the Issuer to fund the initial expenses of the transaction. Under the Issuer Deed of Charge, payment of interest on and scheduled principal of the Expenses Loan will be paid in priority to interest and principal of the Subordinated Loan but subordinated to payments of interest and Expected Amortisation Amounts then due or past due on the Notes and, in certain circumstances, to the repayment of Further Advances.

Interest will be payable annually in arrears at 6.5 per cent. per annum (the “**Expenses Loan Interest Rate**”) on each Loan Interest Payment Date out of Issuer Available Funds (see “*Summary of Transaction Documents – Expenses Loan Agreement*”).

Interest will be payable subject to applicable withholding or deduction for or on account of Irish tax, provided always that if there is any such withholding or deduction, no additional amount will be payable in respect thereof.

Principal in an amount scheduled to be paid on such Loan Interest Payment Date (and any amount scheduled to be paid on a prior Loan Interest Payment Date which is then unpaid) will be repayable on each Loan Interest Payment Date on which the Issuer has funds available for the purpose.

Part of the amount advanced to the Issuer under the Expenses Loan Agreement will be used by the Issuer to pay its initial costs and expenses (including, *inter alia*, commissions payable to the Lead Manager) and to fund the Issuer Reserve Account.

**Reinsurer Loan Agreement:**

On the Closing Date, the Issuer will lend £756,954,189 to the Reinsurer under the Reinsurer Loan Agreement. Under the Reinsurer Loan Agreement, the Reinsurer will pay interest and repay principal to the Issuer.

Interest will be payable annually in arrear at the Reinsurer Loan Interest Rate on each Loan Interest Payment Date out of Reinsurer Available Funds (see “*Summary of Transaction Documents – Reinsurer Loan Agreement*”). The rate of interest applicable in respect of a Loan Interest Period will be determined as the Reinsurer Cost of Funds in respect of such Loan Interest Period.

Interest will be payable subject to applicable withholding or deduction for or on account of Irish tax, provided always that if there is any such withholding or deduction, the Reinsurer will either (a) pay such additional amount as will result in the Issuer receiving the amount it would have received had no such withholding or deduction been required or (b) lend the Issuer such additional amount as will result in the Issuer receiving the amount it would have received had no such withholding or deduction been required (each such loan, a “**Reinsurer Gross-up Loan**”). (Repayment of any Reinsurer Gross-up Loan will be limited recourse to any tax which the Issuer receives and retains the benefit of, or any credit against tax identified by the Issuer under the terms of the Reinsurer Loan, in respect of such withholding).

If the Reinsurer is required to make a Reinsurer Gross-Up Loan, such amount shall be taken into account in determining (and therefore increasing) the amount of the Relevant Regulatory Surplus Amount which is treated as income with the result that the amount allocated to principal would be lower.

Principal will be repayable on each Loan Interest Payment Date on which Reinsurer has funds available for the purpose.

**Reinsurance Agreement:**

On 9 September 2003, the Reinsurer entered into the Reinsurance Agreement with New Barclays Life under which the Reinsurer provides, with effect from 26 September 2003, reinsurance of certain claims relating to certain unit-linked life and pensions policies of New Barclays Life. The Reinsurer has agreed to hold assets during the term of the Reinsurance Agreement which correspond to the unit-linked liabilities that are reinsured under the Reinsurance Agreement. The Reinsurer's unit-linked liability in respect of any category of unit-linked policies is equal to the value from time to time of the assets held by it that correspond to that category of policy – initially an aggregate amount of approximately £752 million.

The Reinsurer is only liable in respect of a linked liability claim made on a unit-linked policy that is reinsured under the Reinsurance Agreement when the value of assets held by New Barclays Life that correspond to that category of policy has been reduced to zero, and is only liable to the extent that it itself holds assets that correspond to that category of policy.

In addition, the Reinsurer reinsures the mortality and morbidity risks relating to the unit-linked life and pensions policies (after taking account of all other reinsurance of such risks).

The Relevant Regulatory Surplus Amount declared in respect of each Calculation Period will be applied in the manner described in "*Summary of the Transaction Documents – Reinsurance Agreement*").

The calculation of the Relevant Regulatory Surplus Amount in respect of each Calculation Period will be made by New Barclays Life. However, certain processes have been introduced to ensure that the interests of Ambac (and, following the occurrence of an Ambac Termination Event, Noteholders) are taken into account in the process. A description of the process is described under "*Summary of the Transaction Documents – Subordinated Loan Agreement – Process for determining Relevant Regulatory Surplus Amounts*".

The amounts received by the Reinsurer from New Barclays Life pursuant to the Reinsurance Agreement contributes to the Reinsurer Available Funds used to make repayment under the Reinsurer Loan Agreement.

**Reinsurer Deed of Charge:**

The Reinsurer's obligations under the Reinsurer Loan Agreement (together with its obligations to certain of its other creditors, including New Barclays Life under the Reinsurance Agreement) will be secured by a deed of charge (the "**Reinsurer Deed of Charge**") which will create first priority fixed charges and a first priority floating charge over substantially all of the assets of the Reinsurer (the "**Reinsurer Security**") in favour of the Reinsurer Security Trustee.

## INVESTMENT CONSIDERATIONS

*The following is a summary of certain aspects of the Notes and the transaction about which prospective Noteholders should be aware. This summary is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out in this Offering Circular and reach their own views prior to making any investment decision.*

### Transaction Risks

#### Reliance on Ambac

To the extent that the Issuer fails to make payments of Scheduled Interest and Ultimate Principal due under the Notes the payment of the Guaranteed Amounts will be dependent on, *inter alia*, Ambac performing its obligations under the Ambac Financial Guarantee. The Ambac Financial Guarantee will not guarantee any amount becoming payable for any other reason, including the early redemption of the Notes or an accelerated payment after the happening of an Issuer Event of Default. In these circumstances, Ambac's obligations will be to continue to pay the Guaranteed Amounts as they fall Due for Payment (as defined in the Ambac Financial Guarantee) on each Interest Payment Date (see further "*Form of Ambac Financial Guarantee*") and to that extent the Noteholders will not be affected by the risks related to the negative performance of the Issuer. In the absence of payment under the Ambac Financial Guarantee, the Noteholders will directly bear the risks associated with the negative performance of the Issuer. Ambac will also provide the Ambac Liquidity Facility Financial Guarantee and the Ambac Swap Financial Guarantee.

#### Reliance on the Reinsurer, Barclays, the Swap Provider, the Liquidity Provider and New Barclays Life

The ability of the Issuer to pay interest and principal in respect of the Notes depends on the ability of the Reinsurer to pay interest and principal in respect of the Reinsurer Loan, the Swap Provider to pay amounts due under the Swap Agreement, the Liquidity Provider to pay amounts due under the Liquidity Facility Agreement and, in certain circumstances, upon the ability of Barclays to make Further Advances under the Subordinated Loan. The ability of the Reinsurer to pay interest and principal in respect of the Reinsurer Loan depends on the ability of New Barclays Life to apply Relevant Regulatory Surplus Amounts under the Reinsurance Agreement.

#### Limited Recourse Obligations

The Notes are limited recourse obligations of the Issuer and are payable solely from amounts received in respect of the Reinsurer Loan, Further Advances under the Subordinated Loan, advances under the Liquidity Facility and the payments under the Swap (except that the holders of the Notes are also entitled to the benefit of the Ambac Financial Guarantee with respect to Scheduled Interest and Ultimate Principal on the Notes). None of the officers, directors or incorporators of the Issuer, the holders of the Notes, the Note Trustee, the Issuer Security Trustee, the Reinsurer Security Trustee, the Agent Bank, the Liquidity Provider, the Swap Provider, the Principal Paying Agent, the Irish Paying Agent, the Account Bank, the Reinsurer Investment Manager, the Reinsurer Custodian, the Issuer Cash Manager, the Issuer Administrator, the Reinsurer Administrator, the Reinsurer, New Barclays Life, BLAC, Barclays or any of its affiliates or any other person or entity (other than the Issuer and, in the case of Scheduled Interest and Ultimate Principal of the Notes, Ambac) will be obliged to make payments on the Notes. Consequently, holders of the Notes must rely solely on amounts received under the Reinsurer Loan, the Subordinated Loan, the Liquidity Facility and the Swap and other collateral securing the Notes for the payment of principal, interest and other amounts on the Notes (except that the holders of the Notes are also entitled to the benefit of the Ambac Financial Guarantee with respect to Scheduled Interest and Ultimate Principal – see "*Form of Ambac Financial Guarantee*" below). There can be no assurance that the amounts received under the Reinsurer Loan, the Subordinated Loan, the Liquidity Facility or the Swap will be sufficient to make payments on the Notes after making payments of amounts required to be paid to other creditors ranking senior to or *pari passu* with such Notes. The Issuer's ability to make payments in respect of the Notes will be subject to the terms of the Trust Deed and the Issuer Deed of Charge. If amounts received under the Reinsurer Loan, the Subordinated Loan, the Liquidity Facility and the Swap are insufficient to make payments on the Notes in accordance with the Issuer Pre-Enforcement Priority of Payments or the Issuer Post-Enforcement Priority of Payments (as

applicable), no other assets will be available for payment of the shortfall (except that the holders of the Notes are also entitled to the benefit of the Ambac Financial Guarantee with respect to Scheduled Interest and Ultimate Principal).

In addition, none of the Noteholders or any other Issuer Secured Creditor, except Ambac (for so long as it is a Controlling Creditor), may take any steps to direct the Issuer Security Trustee to enforce the Issuer Security or any part of it nor take any steps or pursue any action whatsoever for the purpose of recovering any debts due or owing to it by the Issuer or in respect of insolvency proceedings in respect of the Issuer unless the Issuer Security Trustee having become bound to take any steps or proceedings to enforce the Issuer Security fails to do so within a reasonable period of becoming so bound and such failure is continuing (in which case each Issuer Secured Creditor shall be entitled to take any such steps and proceedings as it shall deem necessary provided that an Issuer Secured Creditor (other than Ambac for so long as Ambac is a Controlling Creditor and the Note Trustee (acting on behalf of the Noteholders)) shall not, prior to the date that is two years and one day after the later of the Final Maturity Date and the payment in full of all amounts outstanding under the Notes and other Transaction Documents take any corporate action or other steps or legal proceedings seeking the commencement of insolvency proceedings in respect of the Issuer.

For the avoidance of doubt, the above provision does not prevent Ambac (for so long as Ambac is a Controlling Creditor or, thereafter, the Noteholders) directing the Issuer Security Trustee to take steps to obtain payment of amounts payable under the Transaction Documents upon the Issuer Security becoming enforceable, in accordance with the Issuer Deed of Charge.

Other than the foregoing and any interest on the Issuer Accounts or Eligible Deposits, the Issuer will not have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes.

#### **Relevant Regulatory Surplus Amounts**

The ability of the Reinsurer to pay interest and principal in respect of the Reinsurer Loan, and therefore the ability of the Issuer to pay interest and principal on the Notes, depends on positive Relevant Regulatory Surplus Amounts being determined and applied in accordance with the terms of the Reinsurance Agreement. The determination of Relevant Regulatory Surplus Amounts and issues relating thereto, including a summary of the principal risks in respect thereof, is described under “*Relevant Regulatory Surplus*” below (in particular under “– *Principal factors contributing to surplus emerging*” and “– *Principal risks to the emergence of surplus*”).

#### **The Issuer’s ability to meet its obligations under the Notes**

The Notes will be obligations of the Issuer only. The Notes will not be obligations or responsibilities of, or guaranteed by, any other person (other than Ambac, in respect of Scheduled Interest and Ultimate Principal on the Notes). In particular, the Notes will not be obligations or responsibilities of, nor will they be guaranteed by, the Note Trustee, the Issuer Security Trustee, the Reinsurer Security Trustee, the Lead Manager, Ambac (save in relation to the payment of Scheduled Interest and Ultimate Principal which is guaranteed by Ambac), the Agent Bank, the Liquidity Provider, the Swap Provider, the Principal Paying Agent, the Irish Paying Agent, the Account Bank, the Reinsurer Investment Manager and Custodian, the Issuer Cash Manager, the Issuer Administrator, the Reinsurer Administrator, the Reinsurer, New Barclays Life, BLAC, Barclays, or any other company in the same group of companies as, or affiliated to, Barclays or any other company in the same group of companies as, or affiliated to, the Issuer. Furthermore, no person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes (except Ambac in respect of Scheduled Interest and Ultimate Principal on the Notes).

To the extent that the Issuer fails to make payments due under the Notes, receipt by the relevant Noteholders of Scheduled Interest and Ultimate Principal on the Notes will be dependent on, *inter alia*, Ambac performing its obligations under the Ambac Financial Guarantee (see “*Reliance on Ambac*” above).

## **Limited Liquidity of Notes and Restrictions on Transfer**

There is currently no market for the Notes and there can be no assurance that such a market will develop. In addition, there can be no assurance that any secondary market will provide the holders of Notes with liquidity of investment or will continue for the life of such Notes. Consequently, a purchaser must be prepared to hold such Notes for an indefinite period of time and potentially until their Maturity Date. In addition, such Notes are subject to certain transfer restrictions. Such restrictions on the transfer of such Notes may further limit their liquidity. See “*Subscription and Sale*”.

## **Suitability**

Prospective purchasers of Notes should ensure that they understand the nature of such Notes and the extent of their exposure to risk, that they have sufficient knowledge and experience, and access to professional advisers to assist them, to make their own legal, tax, accounting, regulatory and financial evaluation of the merits and risks of investment in such Notes and that they consider the suitability of such Notes as an investment in the light of their own circumstances and financial condition.

## **Ratings of the Notes**

The ratings assigned to the Notes by the Rating Agencies are based on the value of the Relevant Regulatory Surplus Amount and other relevant structural features of the transaction, including, *inter alia*, the long-term, unsecured, unsubordinated and unguaranteed debt ratings of Barclays and the rating of Ambac’s financial strength and claims paying ability, in respect of Scheduled Interest and Ultimate Principal due on the Notes, and reflect only the views of the Rating Agencies. The ratings of the Notes address (i) the full and timely payment to the Noteholders of all payments of interest on the Notes on each Interest Payment Date, and (ii) the full and ultimate repayment to the Noteholders of all principal on the Notes on the Final Maturity Date.

There can be no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in or unavailability of information or if, in the Rating Agencies’ judgment, circumstances so warrant. Future events, including events affecting Barclays, New Barclays Life, the Reinsurer or Ambac, or circumstances relating to the policies, the Relevant Regulatory Surplus Amount or the life assurance and pensions industry generally, could also have an adverse impact on the ratings of the Notes. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.**

## **Ranking of the Notes**

The terms on which the security for the Notes will be held will provide that, upon acceleration of amounts owing under the Notes, payments will rank in the order set out in the Issuer Post-Enforcement Priority of Payments under Condition 3(j) below. There is no assurance that these subordination provisions will protect the holders of the Notes from risk of loss.

## **Subordination**

Payment of interest and principal on the Notes is subordinate to certain fees, costs and expenses and to payments to the Swap Provider under the Swap (other than Swap Subordinated Amounts), the Liquidity Provider under the Liquidity Facility (other than Liquidity Gross-up Amounts) and Barclays, as Subordinated Loan Provider, in respect of Refundable Amounts. In addition, payments of principal on the Notes in excess of the Expected Amortisation Amount not then due or past due are subordinate to certain payments of interest of the Subordinated Loan and interest and principal on the Expenses Loan.

Certain payments by the Reinsurer to the Issuer under the Reinsurer Loan are also subject to subordination under the terms thereof and the Reinsurer Deed of Charge.

## **Mandatory Redemption**

The Issuer is required, prior to the service of an Enforcement Notice, on each Interest Payment Date to apply the Issuer Available Funds, after paying or providing for higher ranking amounts in the Issuer Pre-Enforcement Priority of Payments, in redeeming the Notes. On an Interest Payment Date

after paying such higher ranking amounts in the Issuer Pre-Enforcement Priority of Payments, the amount payable out of Issuer Available Funds to redeem the Notes will be applied in accordance with the Issuer's Pre-Enforcement Priority of Payments as follows:

- (a) first, in paying the Expected Amortisation Amounts on such Interest Payment Date;
- (b) second, in paying the Deferred Expected Amortisation Amounts on such Interest Payment Date;

and, after payment of current accrued interest on the Subordinated Loan and payment of interest and Expenses Loan Amortisation Amounts as set out in the Pre-Enforcement Priority of Payments;

- (c) third, to pay amounts outstanding on the Notes.

The time at which principal will be repaid, and the amount of principal which will be repaid, will depend to a large extent on the speed at which Relevant Regulatory Surplus Amounts emerge under the Reinsurance Agreement. The amount of, and time at which Relevant Regulatory Surplus Amounts emerge depend on a number of factors (see "*Relevant Regulatory Surplus*" below).

### **Optional Redemption**

In addition, if the Issuer at any time satisfies the Note Trustee and (for so long as Ambac is a Controlling Creditor) Ambac that: (i) on the next Interest Payment Date, (A) the Issuer would be required to deduct or withhold from any payment of principal or interest on the Notes (other than where the relevant holder has some connection with the United Kingdom or Ireland other than the holding of Notes or related coupons); (B) the Issuer would be required to deduct or withhold from any payment of principal, interest or other sum due and payable under the Subordinated Loan Agreement, the Liquidity Facility Agreement or the Expenses Loan Agreement; (C) the Issuer or the Swap Provider would be required to deduct or withhold from any payment under the Swap; (D) the Reinsurer would be required to deduct or withhold from any payment under the Reinsurer Loan Agreement or the Reinsurance Agreement or (E) New Barclays Life would be required to deduct or withhold from any payment under the Reinsurance Agreement, in each case any amount for or on account of any present or future taxes, duties, assessments or governmental charges of any nature imposed, levied, collected, withheld or assessed by the United Kingdom or Ireland or (in each case) any political sub-division of it or any authority of it or in it; or (ii) the Issuer, by reason of a change in tax law (or in the application or official interpretation of any tax law), would not be entitled to relief for tax purposes in the United Kingdom or Ireland for any amount which it is obliged to pay, or would be treated as receiving for tax purposes in the jurisdiction of tax residency of the Issuer an amount which it was not entitled to receive, under the Swap Agreement; or (iii) by reason of a change in law (or the application or official interpretation thereof), it has become or will become unlawful in the United Kingdom or Ireland for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Reinsurer Loan Agreement; then if the Issuer is unable to arrange a substitution which would have the result of avoiding the relevant event, the Issuer may, redeem all, but not some only, of the Notes at their Principal Amount Outstanding together with accrued but unpaid interest to (but excluding) the date of redemption.

The Issuer may only redeem the Notes in such circumstances if it has given not less than 30 nor more than 60 days notice to the Note Trustee and Noteholders in accordance with Condition 17, on the next following Interest Payment Date and conditional on the Issuer having satisfied the Note Trustee, the Subordinated Loan Provider and Ambac (for so long as Ambac is a Controlling Creditor) that such event has occurred.

An optional redemption of the Notes may not occur unless two directors of the Issuer certify to the Note Trustee, the Subordinated Loan Provider and Ambac (for so long as Ambac is a Controlling Creditor) that it will have sufficient funds on the proposed redemption date to redeem all the Notes and to pay all amounts in the Issuer Pre-Enforcement Priority of Payments required to be paid in priority to, or *pari passu* with and including, the Subordinated Loan.

### **Redemption upon enforcement:**

Following service of an Enforcement Notice, the Notes will be redeemed in accordance with the Issuer Post-Enforcement Priority of Payments set out in Condition 3(j).



## **Withholding Tax**

Under current law all payments in respect of the Notes will be made free from any withholding or deduction for or on account of any tax imposed in Ireland subject as provided in “*Taxation – Irish Taxation – Taxation of the Issuer*” and “– *Noteholder Taxation*”.

However, there can be no assurance that the law or practice will not change. In the event that withholding of any tax from any payment by the Issuer in respect of the Notes is required by law or practice in any jurisdiction, neither the Issuer nor Ambac will be obliged to pay any additional amount to Noteholders in respect of such imposition or withholding.

Under current law and practice, payments by (i) New Barclays Life under the Reinsurance Agreement, (ii) the Reinsurer under the Reinsurer Loan Agreement and the Reinsurance Agreement, (iii) the Issuer under the Subordinated Loan Agreement, the Swap Agreement, the Expenses Loan Agreement, the Liquidity Facility Agreement and the Guarantee and Reimbursement Agreement, (iv) the Swap Provider under the Swap Agreement, (v) the Liquidity Provider under the Liquidity Facility Agreement and (vi) Ambac under the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee and the Ambac Swap Financial Guarantee may be paid without withholding or deduction for or on account of tax of Ireland or the United Kingdom (or any political subdivision thereof). There can be no assurance that this will remain the case.

If such tax is required to be withheld:

- (i) if the withholding is by the Issuer under the Swap Agreement, the Issuer is not required to pay any additional amounts in respect thereof;
- (ii) if the withholding is by the Swap Provider under the Swap Agreement, the Swap Provider is not required to pay any additional amounts in respect thereof;
- (iii) if Ambac is required to withhold or deduct for or on account of tax on payments under the Financial Guarantees it will pay such additional amount as will ensure that the amount received by the Noteholder is the amount it would have been had there been no such withholding or deduction. Ambac will not, however, pay any additional amount in respect of tax required to be withheld or deducted for or on account of tax by any person other than Ambac, including the Issuer;
- (iv) if the withholding is by the Reinsurer under the Reinsurer Loan, the Reinsurer is required to pay an additional amount in respect thereof or make a limited recourse loan of an equivalent amount in respect thereof. Such amount shall be taken into account in determining (and therefore increasing) the Relevant Regulatory Surplus Amount which is treated as income with the result that the amount allocated to principal would be lower, which may delay the time at which the Notes are redeemed and may result in there being insufficient principal to redeem the Notes;
- (v) if the withholding is by the Issuer in respect of payments under the Subordinated Loan or the Expenses Loan, the Issuer is not required to pay additional amounts in respect thereof;
- (vi) if the withholding is by New Barclays Life under the Reinsurance Agreement, New Barclays Life is not required to pay any additional amounts in respect thereof, which will (unless the Reinsurer can recover the full amount of such withholding) reduce the amount of the Relevant Regulatory Surplus Amounts available to pay interest on and repay principal of the Reinsurer Loan (and accordingly, amounts available to redeem the Notes);
- (vii) if the withholding is by the Issuer or the Liquidity Provider under the Liquidity Facility additional amounts will be required to be paid by the issuer; and
- (viii) if the withholding is by the Issuer under the Expenses Loan no additional amounts will be required to be paid.

## **Rights of Ambac**

Under the Issuer Pre-Enforcement Priority of Payments and the Issuer Post-Enforcement Priority of Payments, any Guarantee Fees due and payable to Ambac under the Guarantee and Reimbursement Agreement are senior in right of payment to any payment of interest on or principal of the Notes. Ambac is required to make payments of Scheduled Interest and Ultimate Principal on the Notes, the Swap Fixed Amounts under the Swap Agreement and certain payments under the Liquidity Facility

Agreement. To the extent that Ambac makes a payment of a claim under the Ambac Financial Guarantee, the Issuer's reimbursement obligation for such payment will be immediately due and payable, together with interest thereon.

For so long as Ambac is a Controlling Creditor, Ambac will have the sole right to determine whether the Note Trustee should deliver an Enforcement Notice to the Issuer and thereby declare the Notes to be immediately due and payable.

### **Consents to variations of Transaction Documents and other matters**

In relation to certain matters and variation of the terms of the Transaction Documents the consent of one or more of the Issuer Security Trustee, the Reinsurer Security Trustee and the Note Trustee is required. The consent of the Noteholders is not required in respect of all such matters. In certain circumstances the Issuer Security Trustee, the Reinsurer Security Trustee and the Note Trustee (as applicable) will be obliged to give such consent if certain conditions are met. In certain circumstances, Ambac will have the right to direct the Note Trustee as to how it exercises its rights under the Transaction Documents (other than in respect of Reserved Matters or Basic Terms Modifications). Ambac as a Controlling Creditor has no obligation to have regard to the interests of the Noteholders or any of the Issuer Secured Creditors and the Note Trustee will not have regard to the interests of any Noteholders or any other Issuer Secured Creditor when acting on the instructions of Ambac.

Where a particular matter (including the determination of material prejudice by the Issuer Security Trustee, the Reinsurer Security Trustee or the Note Trustee and changes to certain of the operational covenants) involves the Rating Agencies being requested to confirm the then current ratings of the Notes or the Unguaranteed Rating, such confirmation may or may not be given by the Rating Agencies. Any such confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction since the Closing Date. A confirmation of ratings represents only a restatement of the ratings given at the Closing Date and should not be construed as advice for the benefit of any parties to the transaction. No assurance can be given that a requirement to seek ratings confirmation will not have a subsequent impact upon the business of the Issuer.

### **Conflicts of Interest**

Each of New Barclays Life, BLAC, the Reinsurer, the Liquidity Provider, the Subordinated Loan Provider, the Expenses Loan Provider, the Reinsurer Account Bank, the Reinsurer Investment Manager and Custodian, the Reinsurer Administrator and the Swap Provider are companies within the Barclays Group. The transaction has been structured to achieve an alignment of interest between such companies and the Issuer as Barclays will, under the Subordinated Loan:

- (i) not be repaid the initial principal amount advanced until the Notes have been redeemed. The initial amount of the Subordinated Loan will be £356,954,189 which is approximately 89% of the amount of the Notes and will, as the Notes are redeemed, increase as a percentage of the principal amount of the Notes outstanding;
- (ii) be required to make Further Advances or Capital Injections if certain Deemed Warranties are breached. See "*Subordinated Loan Agreement – Deemed Warranties*" below for a summary of the Deemed Warranties, which include representations and covenants as to the carrying on of the business of New Barclays Life and the Reinsurer and other matters.

### **Projections, Forecasts and Estimates**

Any projections, forecasts and estimates contained herein (including those in relation to the Base Case) are forward looking statements and are based upon certain assumptions that New Barclays Life considers reasonable. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialise or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results are likely to vary from the projections, and the variations may be material.

## **Interest Rate Risk**

On the Closing Date, the Issuer will enter into the Swap to exchange, to the extent necessary to hedge its obligations under the Notes, the fixed rate amounts received by it under the Reinsurer Loan for floating amounts payable under the Notes. If at any time the Swap becomes subject to early termination, the Issuer will seek to obtain a replacement Swap on substantially similar terms, or on such other terms as would not adversely affect the ratings of the Notes with, in each case, the prior written consent of Ambac (for so long as Ambac is a Controlling Creditor). The nature of the Swap is such that it may be difficult and/or expensive to find a replacement Swap Provider; there can be no certainty that a replacement would be found.

## **Average Life and Duration of the Notes**

The Final Maturity Date of the Notes is 15 April, 2013; however, the average life of the Notes is expected to be shorter than the number of years until their Final Maturity Date. Average life refers to the average amount of time that will elapse from the date of delivery of a debt obligation until each Pound Sterling of the principal of such debt obligation will be paid to the Noteholder. The average lives of the Notes will be determined by the amount and frequency of principal payments in respect of such Notes, which are dependent upon, among other things, the speed at which the Relevant Regulatory Surplus Amounts emerge (as to which see “*Relevant Regulatory Surplus*” below) as well as on whether Barclays advances funds under the Subordinated Loan which will be used to redeem the Notes.

Based on the Base Case, the average life of the Notes issued on the Closing Date would be expected to be 2.11 years.

The approximations in the preceding paragraph are not predictive; in fact, the actual average lives of the Notes will be affected by various factors as referred to above. See “*Relevant Regulatory Surplus*” below.

In addition, the Notes may also mature earlier than expected in the event of a mandatory redemption (as described in Condition 6(b)) or an optional redemption (as described in Condition 6(c)). See “*Mandatory Redemption*” and “*Optional Redemption*” above.

## **Business Risks**

### **Insolvency of New Barclays Life**

The general insolvency laws in the United Kingdom applicable to companies are modified in certain respects in relation to insurance companies. A court may, in place of making a winding up order where an insurance company has been proved unable to pay its debts, reduce the amount payable under the contracts of the insurance company on such terms and subject to such conditions as it thinks just. In addition, where an insurance company is in financial difficulties but not in liquidation, the Board of the Financial Services Compensation Scheme has certain powers, including the power to take measures for securing the transfer of all or part of the business to another insurance company.

New Barclays Life being in financial difficulties or insolvent is likely adversely to affect the amount of Relevant Regulatory Surplus Amounts. The Reinsurer has no security over any assets of New Barclays Life and would therefore be an unsecured creditor. As the obligations of New Barclays Life to the Reinsurer under the Reinsurance Agreement do not constitute an “insurance debt” of a direct insurer, if there were any Relevant Regulatory Surplus Amounts, preferred creditors and creditors in respect of “insurance debts” (broadly obligations payable under a contract of insurance to the policyholder of such contract) would rank in priority thereto. It is, however, unlikely that, if New Barclays Life were insolvent, there would be any Relevant Regulatory Surplus Amounts emerging.

### **Transfer of New Barclays Life’s business**

It will be a breach of a Deemed Warranty if New Barclays Life transfers all or any of the policies to another entity without the prior written consent of Ambac (for so long as Ambac is a Controlling Creditor) or, thereafter, without consent of the Noteholders. However, a transfer may be made by New Barclays Life of its business without the consent of Ambac or an Extraordinary Resolution of the Noteholders, as applicable, if either (i) the Reinsurer Loan is repaid in full on or prior to such transfer or (ii) the transfer is made pursuant to the exercise by the Financial Services Authority

("FSA") (or any successor) (the "Insurance Regulator") or a liquidator of powers under the FSMA or by the exercise of powers under the Financial Services Compensation Scheme (including any rules or regulations made thereunder) (a "Directed Transfer").

### **Mis-selling and Reserves for Mis-selling**

New Barclays Life considers that its anticipated liabilities in respect of pensions mis-selling by the Policy Originators have been appropriately provided for in existing reserves. A significant proportion of the endowment policies (estimated at in excess of 70 per cent.) were written to finance the repayment of principal on interest-only mortgages related to residential mortgage lending from Barclays or Woolwich plc. Generally borrowers consider the method of making or financing repayment and the mortgage together when considering the competitiveness of their mortgage and endowment lapses therefore reflect the levels of activity in the mortgage market (both re-mortgaging and the extent to which borrowers move house). Expected future investment returns are recognised as likely to be lower in the current low inflation environment than was the case when most unit-linked life policies written by BLAC and WLAC were written. All life insurance companies selling endowment policies have been required to write to policyholders showing the projected benefits under their policies using current FSA projection rates, which are usually lower than the rates used when the policy was acquired. Combined with recent falls in the markets, the revised projections may show a shortfall in the amount projected against the amount required to repay the related mortgage, giving rise to an increase in the number of customer complaints, which the FSA have indicated should be considered favourably. To the extent that liability arises in respect of such complaints or reserves in respect of such complaints or expected complaints is increased there may be a Breach of a Deemed Warranty.

To the extent reserves prove to be insufficient and additional reserves are required in respect of a Breach, the Relevant Regulatory Surplus Amount in the related Calculation Period may be reduced. Barclays has agreed in the Subordinated Loan Agreement that liabilities for mis-selling will be treated as a Breach and, subject to certain thresholds, that it will either make a Further Advance on the Payment Date immediately following the relevant Calculation Period of an amount equal to the reduction in the Relevant Regulatory Surplus Amount and/or will procure that a Capital Injection will be made into New Barclays Life to avoid the reduction in the Relevant Regulatory Surplus Amount. The Further Advance and/or Capital Injection to be made may be deferred (in whole or in part) in certain circumstances if (a) the Relevant Regulatory Surplus Amount, notwithstanding the Breach, remains sufficient to provide for payment of the Expected Amortisation Amounts (including any deferred from a prior period) without reducing the Relevant Regulatory Surplus Amount below the level necessary to provide for payment of the Expected Amortisation Amounts then due or past due or (b) there are sufficient free assets (being the excess of admissible assets over liabilities, as determined for the purposes of the Returns) remaining at least equal to twice the Required Minimum Margin.

New Barclays Life may be called upon to contribute to the Financial Services Compensation Scheme or to any other scheme for the mis-selling practices of others. Any contribution New Barclays Life might be called upon to make to such scheme is not expected to be significant in the context of Relevant Regulatory Surplus Amounts. To the extent additional costs are incurred or reserves are required in respect of any levies on life insurance companies generally with respect to mis-selling (such as contributions to the Financial Services Compensation Scheme) such additional costs or reserves may reduce Relevant Regulatory Surplus Amounts; no amounts will be required to be advanced under the Subordinated Loan or Capital Injections made in respect thereof.

### **Outsourcing Arrangements**

Pursuant to an outsourcing contract dated 31 October 2002 between WLAC, BLAC and Liberata UK Limited ("Liberata") (the "Outsourcing Agreement"), Liberata agreed to take over the administration of the New Barclays Life's pensions and life insurance policies. The terms of the Outsourcing Agreement seek to establish fixed charges applicable to the administration of the policies subject to increase in line with a formula based on the retail prices index and the increase in national average earnings. The Outsourcing Agreement provides for certain service levels to be achieved. The Outsourcing Agreement may be terminated in certain circumstances, in which event the equipment and software licences may be transferred to a substitute servicer nominated by New Barclays Life. Barclays has agreed with the Issuer and Ambac in the Subordinated Loan Agreement that it will act as back-up servicer in such instance at the rates which would be applicable had the

Outsourcing Agreement continued in effect unless it can procure another person, acceptable to the Note Trustee and (so long as Ambac is a Controlling Creditor) Ambac, to act as servicer in its place and each Rating Agency has confirmed in writing that such actions will not result in the withdrawal, reduction or other adverse action with respect to the then current rating of the Notes or the Unguaranteed Rating.

Additional fees are payable for the time taken to transfer current New Barclays Life systems to the Liberata Amarta administration system. The agreement lasts until such time as the policy related activities are completed in respect of the last policy holder unless terminated earlier. Termination clauses exist to cover various scenarios including material service level failure by Liberata.

In addition, in September 2003 New Barclays Life entered into an outsourcing agreement (an “**Actuarial Services Outsourcing Agreement**”) with a firm of actuarial consultants to take over the provision of certain actuarial services to New Barclays Life.

On or around the Scheme Date, BLAC, New Barclays Life and Barclays entered into an intra-group services agreement pursuant to which Barclays undertook to provide certain services in the event that existing services providers fail to recognise the statutory novation of BLAC’s rights to New Barclays Life pursuant to the Scheme Transfer.

### **Tax Treatment of New Barclays Life**

If the Tax Assumptions are or become incorrect, this would constitute a Breach of a Deemed Warranty and Barclays will (to the extent that the effect of a Breach has not been eliminated as a result of Barclays putting additional funds into New Barclays Life or providing other support which achieves the same effect) make Further Advances under the Subordinated Loan in an amount equal to the loss which occurs in each year as a result of such statement being or becoming incorrect. The Tax Assumptions in respect of New Barclays Life and the Reinsurer are set out in paragraphs 2.27 to 2.29 (inclusive) (in the case of New Barclays Life) and paragraph 2.43 (in the case of the Reinsurer) under “*Summary of the Transaction Documents – Subordinated Loan Agreement – Deemed Warranties*”.

### **General**

#### **Proposed changes to the United Kingdom Regulatory Regime**

New Barclays Life, as an insurance company, is subject to regulation under the Financial Services and Markets Act 2000 and subordinate legislation. The regulatory regime applicable to insurance companies, including that for determining the solvency margin required for insurance companies, is subject to change from time to time.

The current regime for life insurance companies is subject to a number of proposed changes both at the national regulator level and at the European level. The following refers to the main regulatory proposals which may adversely affect the proposed transaction. In most cases the nature of the proposal makes it difficult to determine what, if any, impact it may have.

***Products, sales and changes to pensions regime:*** To the extent that a new or revised regime is introduced for insurance and/or pensions products or changes are made to the state pensions system, it is likely to have a more limited effect on New Barclays Life than other life companies as WLAC and BLAC ceased to accept applications for new business in 2001. The precise nature and extent of any impact on New Barclays Life cannot at this stage be determined. Alternative products, in particular those with lower fees, or changes to the regime for the tax treatment of pensions or changes to the state pensions regime may result in lapse rates being higher than would otherwise be the case or, possibly, in New Barclays Life reducing fees with a view to managing the lapse position. Either of these may reduce the Relevant Regulatory Surplus Amounts below the levels they would otherwise have been. A number of papers have been published relating to these areas, including: HM Treasury and the Department for Work and Pensions’ response to the Sandler Review and the FSA Discussion Paper entitled ‘Options for regulating the sale of ‘simplified investment products’ (and the feedback thereon); the Department of Work and Pensions Pensions Green Paper and the HM Treasury Green Paper on Simplifying the Taxation of Pensions.

***Regulatory capital and solvency margins:*** The Financial Services Authority has announced that it is proposing to adopt a more risk-based approach to regulation in the future.

In August 2003 the FSA published Consultation Paper 195 entitled “Enhanced capital requirements and individual capital assessments for life insurers” (“CP 195”); in connection with businesses not carrying on a participating (that is, “with profits”) business it includes more detailed consultation on individual capital adequacy requirements previously addressed in Consultation Paper 136, entitled “Individual Capital Adequacy Standards”. CP 195 sets out proposals, for consultation, on how individual capital adequacy standards may apply to life insurers. In addition, CP 195 confirms provisions relating to the implementation of EU Directive 2000/12/EC on solvency margin requirements for life assurance undertakings (commonly referred to as “Solvency I”). New Barclays Life has not determined what, if any, effect the matters dealt with in CP 195 may have on it if implemented.

There are additional EU proposals relating to capital adequacy, commonly referred to as “Solvency II”; however, no details have been published and they are not expected to be required to be implemented until 2007 at the earliest. Accordingly it is not possible to determine whether they may have any effect on New Barclays Life.

As at 30 November 2002, the combined excess of admissible assets of New Barclays Life and BLAC over the aggregate value of their respective liabilities, in each case as determined for the purposes of the regulatory returns submitted for their respective financial year ending 30 November 2002, amounted to £205 million, of which approximately £59 million represented share capital, share premium and surplus transferred to the shareholders’ fund (the “Shareholders’ Capital”) held within their respective shareholders’ funds and the balance of approximately £146 million which represents surplus which has previously emerged but was retained within the respective long term business funds (the “Retained Surplus”).

The aggregate amount, as at 30 November 2002, of the Required Minimum Margin (being the amount by which, under then current law and regulation, the admissible assets of the Policy Originators were required to exceed the aggregate value of their liabilities, in each case as determined for the purposes of the Regulatory Returns submitted for the financial year ending 30 November 2002) was approximately £84 million, leaving free assets of approximately £121 million. New Barclays Life does not expect the changes proposed by CP 195 to result in a need for additional capital.

Were additional capital to be required, however, under the Subordinated Loan Agreement, Barclays agrees that it will procure that certain action is taken in connection with such capital (see further “*Summary of the Transaction Documents – Subordinated Loan Agreement – Interaction between New Barclays Life’s Capital and Retained Surplus and Relevant Regulatory Surplus Amount*” below). In addition, if the amount of regulatory capital required to be held in New Barclays Life, at any time, is in excess of the sum of the Retained Surplus and the Shareholders’ Capital (as defined below), Barclays may (but is not required to), in accordance with the intentions expressed in a comfort letter dated 11 December, 2002, inject additional capital into New Barclays Life (whether by way of equity investment, capital contribution, subordinated loan or otherwise). See further under “*Relevant Regulatory Surplus – Interaction between New Barclays Life’s Capital and Retained Surplus and Relevant Regulatory Surplus Amount – Additional Capital*” for a summary of the position.

In addition, in July 2002 the FSA published Consultation Paper 144 entitled “A new regulatory approach to insurance firms’ use of financial engineering”, which includes a discussion on certain reinsurance arrangements. In September 2003, following consultation with the FSA (including the provision of the Reinsurance Agreement) the FSA confirmed to WLAC that they would not be seeking to be represented in court in connection with the Scheme Transfer.

### **Changes to insurance accounting regime**

Following a recent EU directive it will be mandatory for all UK listed companies to prepare financial statements which comply with International Accounting Standards with effect from 1 January 2005. This will apply to reported profits rather than surplus and accordingly would not, under current law, affect the determination of the Relevant Regulatory Surplus Amounts.

In addition, a draft ABI Statement of Recommended Accounting Practice (“SORP”) is currently in issue and a final revision to the existing ABI SORP is anticipated to be issued in late 2003 which is expected to change the accounting treatment in a certain regard as it applies to the Reinsurer. It is expected that it will not allow insurers/reinsurers to hold as an asset the present value of in-force business (“PVIF”) (that is, the Aggregate Relevant Regulatory Surplus) for internally generated PVIF.

Should the current draft of the revised SORP remain unchanged, this will result in the derecognition of the PVIF, creating a deficit in Reinsurers accounts. However, it should be noted that this issue remains an open topic and other accounting proposals, for differing types of internally generated PVIF, could be put forward and adopted as the impact of the new SORP on transactions similar to the above is considered. It is not expected that the transaction would be adversely affected if the current draft of the SORP is adopted in its current form.

### **Regulation of the Reinsurer and Irish Regulatory Capital Issues**

The Reinsurer is an Irish reinsurance company. The Reinsurer is not a direct insurance company and accordingly, is not currently subject to regulation as an insurance company under Irish law. Under current legislation in Ireland, in order to carry on reinsurance business, the Reinsurer is required to notify the Irish Financial Services Regulatory Authority (the “**Authority**”) in a prescribed form giving details of the Reinsurer’s ownership and share capital, directors and senior management, auditors, accountants and lawyers and the risks proposed to be covered and related policy and other arrangements. Such a notification was made on behalf of the Reinsurer as part of its incorporation requirements. The Reinsurer is also required to file its accounts periodically with the Registrar of Companies in Ireland.

Under the Insurance Act 1989 (as amended) of Ireland (the “**1989 Act**”), the Authority is entitled to direct a reinsurance company to cease to carry on business where (i) the reinsurance company contravenes certain provisions of the 1989 Act, including the notice requirements which are referred to above, (ii) the Authority considers that the reinsurance company is undercapitalised having regard to the insurance risks borne by it, (iii) the Authority considers that any director or senior manager of that reinsurance company is not suitably qualified to direct and manage the company’s business, (iv) the Authority considers that the reinsurance company has not a sufficient number of suitably qualified employees in Ireland to conduct its business effectively, or (v) the Authority possesses information that the reinsurance company is engaged in unlawful business in or outside Ireland.

The Reinsurer is not currently subject to regulation in Ireland in respect of its reinsurance business other than as indicated above. However, under the 1989 Act, the Minister for Enterprise, Trade and Employment (the “**Minister**”) is empowered to bring into force, by order, provisions of the 1989 Act which could result in significant regulation of the business of reinsuring insurance business of a class to which the Irish Insurance Acts apply (the reinsurance business of the Reinsurer is such a business). Before making such an order, the Minister is required to be satisfied that it is necessary in the public interest, in the interest of policyholders and in the interest of the orderly and proper regulation of the insurance industry, that persons carrying on such reinsurance business should be subject to such regulation.

If the Minister makes an order bringing into force the relevant provisions of the 1989 Act, those provisions would prohibit any person from carrying on reinsurance business of the type described above otherwise than under an authorisation issued in accordance with regulations made by the Authority (with the consent of the Minister). Such regulations may, amongst other things, make provision for the issue (with or without conditions), refusal, suspension and revocation by the Authority of authorisations for the carrying on of such reinsurance business. Such regulations may also apply, with or without modification, any of the provisions of the Irish Insurance Acts (including those relating to direct insurance) to the business of reinsurance. Carrying on a regulated reinsurance business without an appropriate authorisation from the Authority, or breach of the terms of regulations, or conditions attaching to an authorisation, would be an offence.

In addition, the Insurance Committee of the European Union has set up a reinsurance sub-group to investigate how reinsurance supervision is performed in the EU and whether harmonised rules are necessary in this area. A provisional draft directive has been prepared which is expected to be commented on by Member States in 2003; the current timetable provides for a final draft directive on reinsurance supervision for late 2003; the draft directive would then need to pass through the legislative procedures of the European Council and the European Parliament and then be implemented by the Member States. It is thought unlikely that any proposals will be implemented before 2006.

If such regulation of reinsurance business in Ireland was introduced (either pursuant to the 1989 Act or under an EU directive), there could be no assurance that the Reinsurer would be able to comply with the then applicable Irish regulatory requirements, including authorisation requirements

or any associated capitalisation requirements that could be attached to an authorisation. Additionally, even if the Reinsurer were to comply with such additional regulatory requirements, any increased costs of regulatory compliance could adversely affect the Reinsurer and could consequently affect Noteholders.

However, to the extent that the Reinsurer is subject to regulation requiring additional capital, Barclays has agreed, under the Subordinated Loan Agreement, to procure that additional capital is provided by New Barclays Life into the Reinsurer. However, such additional capital (as well as the existing capital) will not be available in determining the amount of Reinsurer Available Funds and will not therefore be available to fund all or any part of the Reinsurer Loan. As such, it will not increase the security of the Issuer. The Reinsurer may use funds subscribed as capital, subject to the constraints of Irish laws and regulation, as it sees fit, including being able to pay dividends or expenses out of the return earned on such capital.

### European Monetary Union

It is possible that prior to the maturity of the Notes, the United Kingdom may become a participating member state in European Economic and Monetary Union and that the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences: (a) all amounts payable in respect of the Notes may become payable in euro; (b) the published or displayed rates for deposits in Sterling used to determine the rates of Interest on the Notes may disappear or the way those rates are calculated, quoted, published or displayed may change and (c) applicable provisions of law may allow the Issuer to redenominate the Notes into euro and take additional measures in respect of the Notes. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

The adoption of the euro would result in additional costs for New Barclays Life to convert its systems to operate with the euro. Such costs have not been quantified.

### Security

- (a) **Fixed Charge:** Although the security constituted by the Issuer Deed of Charge and Reinsurer Deed of Charge over the assets of, respectively, the Issuer and the Reinsurer held from time to time, including the security over their respective bank accounts, is expressed to take effect as fixed security, it may (as a result, *inter alia*, of the payments to be made from their respective bank accounts in accordance with the Conditions and the Issuer Deed of Charge and the Reinsurer Deed of Charge, respectively) take effect as a floating charge which, in particular, would rank after a subsequently created fixed security interest. However, each of the Issuer and the Reinsurer has covenanted not to create any such subsequent security interests without the consent of Ambac (for so long as Ambac is a Controlling Creditor) and unless the Rating Agencies have confirmed that such actions would not adversely affect the then current ratings of any of the Notes (ignoring the Ambac Financial Guarantee).
- (b) **Governing Law of the Security:** The Issuer Deed of Charge, the Reinsurer Deed of Charge and security interests created pursuant to each of them are governed by English law. Some of the obligations subject to such security may be governed by the laws of jurisdictions other than England and which require different and or additional procedures and/or documentation to create or perfect any security interest. The Issuer Deed of Charge and the Reinsurer Deed of Charge contain a further assurance clause under which the Issuer or the Reinsurer, as applicable, agrees to take such further action as the Issuer Security Trustee or Reinsurer Security Trustee may require to ensure that it creates valid security over its assets in favour of the Issuer Security Trustee or Reinsurer Security Trustee.

### Preferred Creditors under Irish Law

Under Irish law, upon an insolvency or examinership of an Irish company such as the Issuer and the Reinsurer when applying the proceeds of assets subject to fixed security which have been realised in the course of a liquidation or receivership, the claims of a limited category of preferential creditors will take priority over the claims of creditors holding the relevant fixed security. These preferred claims include the remuneration, costs and expenses properly incurred by any examiner of the



company (which includes any borrowings made by an examiner to fund the company's requirements for the duration of his appointment) which have been approved by the Irish courts. See "*Examination under Irish Law*" below.

The interest of secured creditors in property and assets of an Irish company over which there is a floating charge only will rank behind the claims of certain preferential creditors on enforcement of such security. Preferential creditors include the Irish Revenue Commissioners, statutory redundancy payments due to employees (including where those employees have been made redundant as a result of the liquidation of the borrower) and money due to be paid by the Irish company in respect of employers contributions under any pension scheme.

The holder of a fixed security over the book debts of an Irish tax resident company (which would include the Issuer and the Reinsurer) may be required by the Irish Revenue Commissioners, by notice in writing from the Irish Revenue Commissioners, to pay to them sums equivalent to those which the holder received in payment of debts due to it by the company. Where the holder of the security has given notice to the Irish Revenue Commissioners of the creation of the security within 21 days of its creation, the holder's liability is limited to the amount of certain outstanding Irish tax liabilities of the company (including liabilities in respect of value added tax) arising after the issuance of the Irish Revenue Commissioners' notice to the holder of fixed security.

The Irish Revenue Commissioners may also attach any debt due to an Irish tax resident company by another person in order to discharge any liabilities of the company in respect of outstanding tax whether the liabilities are due on its own account or as an agent or trustee. The scope of this right of the Irish Revenue Commissioners has not yet been considered by the Irish courts and it may override the rights of holders of security (whether fixed or floating) over the debt in question.

In relation to the disposal of assets of an Irish tax resident company which are subject to security, a person entitled to the benefit of the security may be liable for tax in relation to any capital gains made by the company on a disposal of those assets on exercise of the security.

### **Examination under Irish Law**

Examination is an insolvency process under Irish law the objective of which is to facilitate the survival of a company and the whole or any part of its undertaking through the appointment of an examiner and the formulation by the examiner of proposals for a compromise or scheme of arrangement. As Irish incorporated companies, the Issuer and the Reinsurer are subject to the examinership regime. A brief outline of the principal aspects of the examinership regime are set out below.

The Irish High Court (the "**Court**") may appoint an examiner if, following the presentation by an eligible person (see below) of a petition, it appears to the Court that a company is or is likely to be "unable to pay its debts" within the meaning of the applicable Irish legislation, no resolution of the company has been passed to wind up the company and no Court order exists to wind up the company. The Court must also be satisfied that there is a "reasonable prospect" of the survival of the company and the whole or any part of its undertaking as a going concern. In this respect, the Court will have regard to the report of an independent accountant, which must be provided with the petition, and which must, among other things, state that there is a reasonable prospect of the survival of the company and set out what considerations should be taken into account to achieve this.

Persons eligible to present a petition for the appointment of an examiner to a company are the company itself, the directors of the company, a creditor (contingent or prospective) (including employees) or a member of the company whose holding is not less than 10% of the paid up share capital of the company.

A protection period (the "**Protection Period**") starts running from the date of presentation of the petition and lasts until the earlier of 70 days from the date of its commencement (which may be extended by a further 30 days by the Court) and the date of withdrawal or refusal of the petition. During the Protection Period, among other things, no proceedings for the winding up of the company may be commenced; no receiver may be appointed unless appointed three days before the presentation of the petition; no attachment, sequestration, distress or execution may be put in force against the company except with the consent of the examiner; no action may be taken to realise any part or all of any security granted by the company except with the consent of the examiner; no steps may be taken to repossess goods held under hire purchase; and if another

person apart from the company is liable to pay the debts of the company such as a guarantor no attachment, sequestration, distress and execution may be put in force against that person and no proceedings of any sort may be commenced against that person.

Two to three weeks after the issue of the petition there is a full hearing by the Court of the petition. If an examiner is appointed by the Court, he is obliged to formulate proposals for a scheme of arrangement or compromise as soon as practicable after he is appointed. The examiner must hold a meeting of each class of creditors at which each such class will be asked to approve the proposed scheme of arrangement or compromise. Within 35 days from the date of his appointment, the examiner must report to the Court on the proposed scheme of arrangement or compromise and the outcome of the meetings of each class of creditors convened to consider the proposals. In practice, this 35-day period is extended to the end of the Protection Period.

Before confirming any proposals the Court must be satisfied, among other things, that at least one class of creditors whose interests or claims would be impaired by the implementation of the proposals has accepted the proposals and that the proposals are fair and equitable in relation to any class of creditor or member that has not accepted the proposals whose interests or claims would be impaired by implementation of the proposals, and are not unfairly prejudicial to the interests of any interested party. The Court considers the proposals made and may confirm, modify or reject them. In practice the Court is reluctant to make substantive modifications to the proposals unless such modifications have been presented to the creditors' meetings. The Court has been very reluctant to lay down detailed principles as to how it will determine whether the proposals are fair and equitable or unfairly prejudicial in the manner contemplated above but will consider the proposals from the perspective of the creditors as a whole and each specific class of creditors and also what such creditors would be expected to receive on a winding up of the company. It will also take into account the respective positions of the Irish Revenue Commissioners and the company's employees (if any). In considering the report for the purpose of confirmation of the proposals the Court may adjourn the hearing and thereby extend the Protection Period beyond 100 days. If the Court confirms the proposals, they become binding on all creditors (whether secured or unsecured) and their rights are accordingly modified.

If the Court does not confirm the proposals, the Court will generally make a winding-up order on just and equitable grounds. If the Court confirms the proposals, the Court will specify a date not later than 21 days after the making of its order from which they take effect. Once confirmed by the Court, the examiner's proposals are binding on the company, its members and creditors (both secured and unsecured).

The Court may extend its protection by appointing an examiner to a "related company" of the company in examination and the examiner will have the same powers in relation to that company as it does in relation to the main company. The related company does not have to be unable to pay its debts before an examiner can be appointed to it. The definition of "related company" is wide. The circumstances in which a company will be regarded as being related to another company are as follows: (a) if it is a holding company or subsidiary; (b) if more than half of the nominal value of the equity share capital is held by the other company (or a company related to the other company); (c) if more than half the nominal value of the equity share capital of each is held by members of the other company; (d) the other company (or companies related to it) are entitled to exercise control over more than half the voting power at general meetings; (e) the businesses of the companies are not separate businesses; or (f) there is another corporate body to which both companies are related. In appointing an examiner to a related company, the court must have regard to whether the appointment would facilitate the survival of the main company or the related company or both but must in any case be satisfied that there is a reasonable prospect of survival of the related company.

The company may borrow monies during the examination to fund the business and, if the examiner certifies such borrowings as being incurred in circumstances where the survival of the company as a going concern would otherwise have been seriously prejudiced, those borrowings will rank ahead of all obligations of the company other than those secured by fixed security. The examiner also has reasonably broad powers to take preventive or remedial action relating to a company's income, assets or liabilities or the activities of its officers, employees, members or creditors where in his opinion it is likely to be to the detriment of the company. Contractual arrangements restraining a company from borrowing or pledging its assets are not binding on the examiner if in his opinion, if the clause was to be enforced, it would be likely to prejudice the survival of the company as a going concern. The examiner may sell property subject to a fixed or floating charge, to facilitate

the survival of the company, but such a sale must be made pursuant to an order of the Court. Unless the examiner can show that the sale of the relevant charged property is very likely to facilitate the survival of the whole or any part of the company as a going concern, the Court is likely to be reluctant to permit such a sale where the holder of the security is strongly opposed to the sale. The proceeds of the disposed assets are subject to the same statutory priorities that applied prior to the examination. Where the security is a fixed charge, it is a condition of any Court order that the net proceeds of disposal and where such proceeds are less than open market value, any sums required to make good the deficiency, be applied towards discharging sums secured by the security.

In assessing the risk that an examiner could be appointed to either the Issuer or the Reinsurer, the following factors should be considered:

- (a) both the Issuer and the Reinsurer will covenant, among other things, not to engage in any activities other than those contemplated by the Transaction Documents, not to have any employees or premises and not to form any subsidiaries;
- (b) the limited recourse nature of the obligations of each of the Issuer and the Reinsurer under the Transaction Documents to which they are party mean that neither the Issuer nor the Reinsurer should become “unable to pay their debts” within the meaning of the applicable Irish examinership legislation solely as a result of their being party to the Transaction Documents and partaking in the transactions contemplated thereby;
- (c) the Issuer will grant security over substantially all its assets in favour of the Issuer Security Trustee to be held by the Issuer Security Trustee for the benefit of the Issuer Secured Creditors, and the Reinsurer will grant security over all its assets in favour of the Reinsurer Security Trustee to be held by the Reinsurer Security Trustee for the benefit of the Reinsurer Secured Creditors;
- (d) both the Issuer and the Reinsurer will covenant to take various measures designed to ensure that their respective businesses are kept separate and distinct from the business of any other company;
- (e) assuming that the Issuer and the Reinsurer comply with such covenants, it is unlikely that the Issuer and the Reinsurer would be regarded as related companies for the purposes of the examinership regime by reason only of their participation in the transactions contemplated by this Offering Circular;
- (f) assuming that the Issuer complies with such covenants, as the Issuer is an ‘orphan company’, it is unlikely that the Issuer would be regarded as being a related company of any other company, including Barclays or any of its subsidiaries (including the Reinsurer) (together the “**Barclays Group**”) for the purposes of the examinership regime; and
- (g) as the Reinsurer is a subsidiary of New Barclays Life, which is a subsidiary of Barclays, the Reinsurer would be a related company of Barclays and each other company within the Barclays Group for the purposes of the examinership regime. In the event that an examiner was appointed to an Irish incorporated member of the Barclays Group, it is possible that the Court would appoint an examiner to the Reinsurer as a related company of the company in examination, if such appointment would facilitate the survival of the company in examination.

### **Change of law**

The structure of the transaction and, *inter alia*, the issue of the Notes and the ratings which are, or are to be, assigned to them are based on English law, Irish law, Irish tax law and English tax law and administrative practice in effect as at the date of this document, and having due regard to the expected tax treatment of the Issuer, the Reinsurer and New Barclays Life under such law and practice. No assurance can be given as to the impact of any possible change to English law, Irish law, Irish tax law, UK tax law or administrative practice after the date of this document.

### **Proposed changes to the Basel Capital Accord**

The Basel Committee on Banking Supervision has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline. Three consultation papers have been issued on the proposed revisions. Comments on the latest paper were published on 20 August 2003 and will be used by the Basel Committee to assist it as it makes the final modifications to its proposals for a new capital adequacy framework. The Basel Committee

intends to finalise the new Basel Capital Accord in the fourth quarter of 2003, allowing for implementation of the new framework in each country at year end 2006. To that end, work has already begun in a number of countries on draft rules that would integrate Basel capital standards which national capital requires. If adopted in their current form, the proposals could affect risk weighting of the Notes in respect of certain investors if those investors are regulated in a manner which will be affected by the proposals. Consequently, prospective purchasers should consult their own advisers as to the consequences to and effect on them of the potential application of the New Basel Capital Accord proposals.

## RELEVANT REGULATORY SURPLUS

### Introduction

The principal source of funds available to fund payment of interest and principal on the Notes each year (after taking account of payments under the Swap) is, ultimately, the amount paid to the Reinsurer by New Barclays Life out of the Relevant Regulatory Surplus Amount on the Payment Date in such year.

The Relevant Regulatory Surplus Amount is summarised under “– *Summary of Relevant Regulatory Surplus Amount*” below and described in more detail under “*Summary of the Transaction Documents – Reinsurance Agreement – Relevant Regulatory Surplus Amount*”.

This section first gives an overview of surplus (see “– *Overview of surplus*”) and then a summary of the Relevant Regulatory Surplus Amount (see “– *Summary of Relevant Regulatory Surplus Amount*”). It then summarises the four principal categories of policy which were in-force at 30 November 2002 (unit-linked investment products, conventional non-participating life products, unit-linked pensions products and conventional non-participating pension products) (see “– *Policy Categories*” below). (A summary of certain features of the principal policies within each category from which surplus is projected to arise under the Base Case is contained in Appendix 6).

Following the overview of surplus and summary of policy categories is a summary of the principal ways in which surplus arises on the different categories of policies, breaking this into the unit-linked business (see “– *Unit-linked Business (Life Products and Pensions Products)*”) and the non-participating business (see “– *Non-participating Business (Life Products and Pensions Products)*”).

The contribution of the principal items contributing to surplus emerging in a Calculation Period is summarised below under “– *Principal Factors contributing to surplus emerging*”. And the principal risks in relation to surplus emerging are then dealt with in the sub-section below headed “– *Principal Risks to the Emergence of Surplus*”.

### Overview of Surplus

New Barclays Life is in accordance with regulatory requirements divided into a shareholders’ fund and a long-term business fund. The long-term business fund is the principal operating fund of the life assurance company. The reinsurance of New Barclays Life by the Reinsurer is attributed solely to New Barclays Life’s long-term business fund and payments in respect of that reinsurance (i.e. out of the Relevant Regulatory Surplus Amount) will emerge solely from its long-term business fund.

A UK life assurance company is required in accordance with regulation to determine each year the value of the assets and liabilities of its long-term business fund, the excess being surplus. To the extent that surplus is not transferred to the shareholders’ fund, surplus is retained to support the long-term business fund. Under current legislation, surplus can only be transferred to the shareholders’ fund by resolution of the board of directors of the life assurance company on receipt of an appropriate valuation report from the appointed actuary of the life assurance company and presentation of regulatory returns to the Financial Services Authority.

The surplus arising from the operations of the long-term business fund represents the aggregation of the following items taken into account in the period:

- premiums received;
- investment return;
- claims and amounts payable on maturity;
- surrenders and payments on discontinuance;
- taxes incurred;
- expenses;
- reinsurance receipts;
- reinsurance premiums; and
- changes in reserves not reflected in the above.

Essentially, surplus arises from the net amount of premiums, investment return and claims and other amounts referred to above arising in a period and when the corresponding movements in reserves in that period are not equal, with the result that a positive or negative amount will be taken into account in the calculation of surplus, and therefore the Relevant Regulatory Surplus Amount, in such period.

Broadly there are two types of reserves; unit reserves for the unit-linked component of the unit-linked policies and non-unit reserves.

Unit reserves for unit-linked policies are determined by reference to the unit pricing policy of the life assurance company. An essential feature of unit-linked policies is that policyholders' investment benefits are determined solely by the performance of the funds whose units are allocated to the relevant unit-linked policy. Accordingly changes in unit reserves do not affect surplus directly as any increase or decrease effectively accrues to the benefit of the policyholders. The performance of those funds effectively contributes to surplus only to the extent of charges (such as the annual management charge) levied on those funds.

Non-unit reserves are reserves for expected future claims and expenses to the extent not covered by expected future premiums and policy charges, taxes due and tax reliefs, and relevant investment income and are calculated as the discounted value of a forward projection on a policy by policy basis. No allowance is made for the possibility that a policy will discontinue early unless such a calculation would result in an increase in reserves. Non-unit reserves are calculated on a prudent basis using prudent parameters.

### **Summary of Relevant Regulatory Surplus Amount**

The Relevant Regulatory Surplus Amount in respect of each Calculation Period arising from the policies will be the amount that would be entered, as surplus, by New Barclays Life in the regulatory surplus line (currently line 35) of the relevant form (currently Form 58 in the Interim Prudential Sourcebook for Insurers) had, very broadly, the reinsurance of unit-linked liabilities not been effected under the Reinsurance Agreement, but taking into account the actual tax payable in respect of that Calculation Period as shown in the relevant tax line (currently line 24) of the relevant form (currently Form 40 in the Interim Prudential Sourcebook for Insurers). This amount is then subject to certain adjustments to determine the Relevant Regulatory Surplus Amount. These include adjustments (i) where the Relevant Regulatory Surplus Amount has previously been negative (in which case, the prior negative surplus is made good first), (ii) in respect of changes to New Barclays Life's capital structure (as summarised under "*Relevant Regulatory Surplus – Interaction between New Barclays Life's Capital and Retained Surplus and Relevant Regulatory Surplus Amount*") and (iii) in respect of Capital Injections made in place of or in conjunction with Further Advances or to enable Further Advances to be repaid (as summarised under "*Summary of the Transaction Documents – Subordinated Loan Agreement – Interaction of Warranty Breaches and Relevant Regulatory Surplus*").

The calculation of the Relevant Regulatory Surplus Amount in respect of each Calculation Period will be made by New Barclays Life. However, certain processes have been introduced to ensure that the interests of Ambac (and, following the occurrence of an Ambac Termination Event, Noteholders) are taken into account in the process. A description of the process is described under "*Summary of the Transaction Documents – Subordinated Loan Agreement – Process for determining Relevant Regulatory Surplus Amounts*".

### **Policy Categories**

BLAC and New Barclays Life are both unit-linked life insurance companies permitted to carry on insurance business in the UK under applicable laws and regulations. The insurance contracts written were written solely under English law, primarily targeting customers of Barclays and Woolwich plc. Their products are of types widely sold in the UK. Concentration of geographic spread has been avoided through the wide distribution base (primarily the branch networks of Barclays and Woolwich plc) and concentration of contract size risk does not exist largely as, while there are a significant number of contracts, only a small number are large contracts and, where policies carrying significant insurance risk (broadly any single risk in excess of £75,000 in relation to policies originated by BLAC and £50,000 in relation to policies originated by WLAC in relation to life and

critical illness insurance and £7,500 per annum, in the case of policies originated by BLAC or £6,000 per annum in the case of policies originated by WLAC, in relation to disability income benefit) were written, such excess was generally reinsured with reinsurers (see “– Reinsurance” below).

The products currently in-force which were written by BLAC and WLAC fall into four generic types:

- unit-linked investment and protection products (such as endowment policies, single premium savings policies and whole of life policies);
- conventional (i.e. non-unit-linked) non-participating life products (such as life insurance, critical illness, disability or permanent health insurance, and guaranteed investment bonds);
- unit-linked pension products (such as personal pension plans and group personal pension policies); and
- conventional (i.e. non-unit-linked) non-participating pension products (such as life insurance, disability premium waiver and annuities).

Neither BLAC nor WLAC wrote profit participating (that is, “with profits”) policies.

Save as described below, none of the unit-linked life or pensions policies offer any guarantees regarding investment performance. Only three small tranches of unit-linked policies offer guarantees on maturity benefits. The Barclaybond Assured Savings Plan, the Unicorn Assured Savings Plan and the Barclays Unicorn Linked Building Society Plan, policies written between 1965 and 1975, offered a small guarantee which consisted of a guarantee at maturity of a return of premiums. At June 2003 there were 4,574 such policies in-force with a bid value of units of £41.4m and a guaranteed maturity benefit of £13.7 million for which reserves considered appropriate are held.

Neither BLAC nor WLAC wrote or are required under existing pensions contracts to write contracts containing onerous annuity rate guarantee options. (There are some unit-linked pension policies which, if vested in annuities with New Barclays Life, entitle the annuitant to require the annuity rate be determined by reference to a fixed interest rate on a gilt with a particular maturity, but the fixed rate is the market rate at the time of vesting and not at the time the policy was written.)

Both BLAC and WLAC ceased to accept new applications for business during 2001 following the announcement of an alliance between Barclays and Legal & General Group PLC. Accordingly, other than in the case of group contracts, which can include new beneficiaries and in certain cases dealing with existing policyholders (such as offering annuities to pension policyholders when the pension contract vests), New Barclays Life does not take on new business. When BLAC and WLAC were writing new business, the sales force generally concentrated on customers of Barclays and Woolwich plc and accordingly the larger part of policies were originated with people who were customers of Barclays or Woolwich plc. The Barclays group recognises the significance to it of its continuing relationship with such customers both at the bank and life company level and the need to ensure that policies are properly serviced.

### Summary of In-Force Products

<i>Product Class</i>	<i>In-force Premium at 30/11/2002 (£m)</i>	<i>Non-unit Reserves at 30/11/2002 (£m)</i>	<i>Unit Reserves at 30/11/2002 (£m)</i>	<i>Approximate Share of Aggregate Relevant Regulatory Surplus at 31/10/2003<sup>1</sup></i>	<i>Aggregate Relevant Regulatory Surplus at 31/10/ 2003 (£m)</i>
				<i>Regulatory Surplus at 31/10/2003<sup>1</sup></i>	<i>2003</i>
Unit-linked Life Products	186.7	53.9	1,379.9	28%	260
Unit-linked Pension Products	177.8	70.3	2,897.5	42%	387
Conventional Non-participating Life Products	76.5	454.4	—	15%	136
Conventional Non-participating Pension Products (including annuity business)	1.6	464.7	—	8%	68
Other reserves and provisions	—	11.6	32.6	7%	64
<b>Total</b>	<b>442.6</b>	<b>1,054.9</b>	<b>4,310.0</b>	<b>100</b>	<b>915</b>

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum). The 2003 value is discounted to 31 October 2003.

The above table summarises the projected Base Case value of surplus of the four different policy categories overall (for the details and assumptions relating to the Base Case see “*The Base Case*” below). The time at which surplus is projected to emerge, and accordingly the projected value for future periods, under the Base Case is different for the different policy categories.

### **Unit-Linked Business (Life Products and Pension Products)**

Unit-linked policies are contracts which are structured so that investment benefits payable are set by reference to the value of unitised investment funds maintained by the company.

The premiums are normally paid by the policyholder and, after the deduction of certain specified charges, units in the appropriate unitised investment funds having a value corresponding to the amount remaining are allocated to the policy. Units allocated to a policy are also cancelled on a regular basis to meet the costs of providing insurance benefits (such as death, critical illness, permanent health, disability and premium waiver benefits) and some ongoing contract charges.

Charges are levied on policies in a number of ways. The aim at the time each policy was originated was for each charge deducted to cover the insurance (as opposed to savings) benefits provided under the policy such as life assurance benefits and critical illness benefits, the direct costs of operating the policy, such as administration expenses and tax attributed to policyholders, together with the a contribution towards the overheads and profit of the company.

Standard charges are of the following types:

- Management charges (principally the annual management charge): these are deductions from unitised funds allocated to a policy expressed as a defined percentage of the value so allocated, accrued daily and deducted at regular intervals. The rate varies from policy to policy and (with the exception of capital units allocated in the early term of a policy) generally varies between 0.75 per cent. and 1.25 per cent. of the daily value of units allocated to policies.
- Risk premium deductions: these are charges generally established when the policy is originated (which may be reviewable) and are levied mostly by the cancellation of units allocated to the policy. The charges are to meet the cost of providing life assurance, critical illness benefit (including permanent total disability benefit), waiver of premium and permanent health insurance (sickness) benefits. The charges are age and gender related and may vary by other factors, such as whether the insured is a smoker. The charge for waiver of premium benefit may be a percentage of the premium payable.
- Policy fees: these are fees for administering the policy and are either fixed or increase monthly (generally in line with the retail prices index or the index of national average earnings). They are levied either from a reduction of the policy allocation of units or from premiums received.
- Percentage of the premiums allocated to the unit fund: some fees may be levied by reducing the proportion of premiums received which is allocated to units below 100 per cent. or charges returned to policyholders by allocating more than 100%.
- Bid/offer spread: a charge arising on acquiring new units or on selling units from different prices being used to allocate or cancel units allocated to a policy.
- Tax deductions: this applies only to life business (both unit-linked and non-participating policies) (as opposed to pensions business) and are intended broadly to match the tax payable by New Barclays Life on taxable investment income and gains allocated to policyholders.

The terms of most unit-linked policies allow management charges, risk premium deductions and policy fees to be increased or reviewed, in some cases only at defined times under the relevant contract. Where increases or reviews are permitted, there is not generally a contractual restriction on the extent of the increase; however, there are constraints under current regulatory principles, the principles of financial management adopted by New Barclays Life and arising from the expectations of policyholders. A summary of the principal policy types, including the ability to increase or review charges, is contained in Appendix 6.

### **Non-Participating Business (Life and Pensions, Including Annuities)**

Non-participating business (other than annuity business) does not generally involve the policyholder or insured in a savings contract. Rather, the policyholder or insured normally pays a premium to the life company which pays out when the specified event insured against occurs (such as death, critical illness or disability).



The surplus to the life company in a period from conventional non-participating policies (other than annuities) will generally arise from the excess of premiums over claims from such policies in that period (after taking account of expenses of administration and changes to reserves arising from factors other than claims paid).

In the case of annuities, when an annuity is acquired by an annuitant the amount paid by the annuitant is normally invested in appropriate fixed income securities with a view to matching the expected liabilities to minimize the investment risk (this is done on a pooled basis). Surplus arises where the reserves established (invested in the appropriate fixed income securities) exceed expected liabilities. Accordingly surplus is primarily a factor of the ability to match (i) investment returns with those expected when the annuity was written and (ii) actual and future expected mortality experience of annuitants and actual administration expenses with the mortality experience and administration expenses projected when the reserve was established.

### **Reinsurance**

New Barclays Life has extensive reinsurance in place such that the normal life assurance risk retained on any one life should not exceed £75,000 (or £7,500 per annum for permanent health insurance) in the case of policies originated by BLAC or £50,000 (or £6,000 per annum for permanent health insurance) in the case of policies originated by WLAC. At 30 November 2002 approximately 49 per cent. of sums at risk arising from the death or critical illness of an insured and approximately 45 per cent. of sums at risk for disability income benefits were reinsured.

Of the sums reinsured, approximately 98.4 per cent. was as at 30 November 2002 reinsured with three reinsurers (excluding the Reinsurer) of which one, representing 44 per cent. of sums at risk reinsured, has a claims paying rating of AA from S&P and Aa1 from Moody's, one representing 27.8 per cent., has a claims paying rating of A+ from S&P and Aa3 from Moody's and one, representing 26.6 per cent., has a claims paying rating of AA- by S&P and Aa2 by Moody's at the time of this document.

The retained sum assured (net of reinsurance) in respect of conventional non-participating life policies at 30 November 2002 was approximately £4,695m, (approximately 35 per cent. of the total sum assured on such policies). The retained sum assured (net of reinsurance) in respect of conventional non-participating pensions policies at 30 November 2002 was £183m. The retained sum at risk (net of reinsurance) of unit-linked policies as at 30 November 2002 was approximately £7,263 million, being approximately 72 per cent. of the total sums at risk on such policies.

## Asset Investment

The following summarises asset investment as at 30 November 2002.

The aggregate assets of BLAC and WLAC as at 30 November 2002 were allocated to segregated funds as follows:

<i>Distribution of funds</i>	<i>30 November 2002 £m</i>	<i>Percentage of Long-Term Business Fund</i>
Unit-linked Funds – Life	1,359.8	25.3
Unit-linked Funds – Pension	2,900.6	54.0
Annuities	455.2	8.5
Reserves	456.9	8.5
Unit Trusts backing Unit-Linked policies	57.9	1.1
Undistributed Surplus	145.8	2.7
<b>Total Long-Term Business Fund</b>	<b>5,376.2</b>	<b>100<sup>2</sup></b>
Shareholders' Fund <sup>1</sup>	57.8	—
<b>Total Fund</b>	<b>5,434.0</b>	

<sup>1</sup> Note that shareholders' funds are not part of and will not contribute generally to the Relevant Regulatory Surplus Amount.

<sup>2</sup> After adjustment for rounding.

Unit-linked products are invested through a series of life and pensions unitised funds, each having a specified definition (see “– *Unit-linked fund objectives*” below). The managed funds are invested through each of the other 6 main funds and are the primary funds invested in by policyholders. As at 30 November 2002 the managed funds accounted for approximately 75 per cent. by value of unit-linked funds in which unit-linked policies were invested). The following table summarises the position as at 30 November 2002 for the principal funds (Appendix 1 sets out further details of the funds in which New Barclays Life unit-linked policies may be invested):

	<i>Life 30 November 2002 £m</i>	<i>Pensions 30 November 2002 £m</i>
Managed**	291	31
U.K. Equity*	455	1,296
U.K. Enterprise*	59	114
International *	267	576
Gilt Edged*	155	373
Property*	71	83
Money Fund*	26	113
Other*	36	315
<b>Total</b>	<b>1,360</b>	<b>2,901</b>

\* Amounts invested include amounts held in the BLAC Managed Fund.

\*\* Figures quoted are as at 30 November 2002 and consist of the WLAC Managed Fund plus the working balance within the BLAC Managed Fund. As from 16 June 2003, the WLAC Managed Fund was reinsured to the BLAC Managed Fund and holdings would now be predominantly units in other New Barclays Life investment funds.

Reserves set aside for conventional non-participating products are invested with the aim of matching investments with liabilities taking account of the nature, term and currency of the liabilities. The aim is, through matching, to protect surplus on conventional non-participating policies against changes in economic conditions. The debt investments in which the reserves of conventional non-participating policies are invested are primarily UK government securities although current investment guidelines given to the investment manager permit up to 35 per cent. of the annuity reserves to be invested in corporate or supranational bonds. New Barclays Life's current

investment policy requires investments by its investment manager in debt instruments to have (or to be obligations of, or guaranteed by, an obligor who has) a minimum senior unsecured long-term credit rating of A3 (by Moody's) or A- (by S&P). Cash exposure under current investment guidelines is limited to deposits with banks other than Barclays which have a senior unsecured short-term credit rating of P1 or above (by Moody's) or A1 or above (by S&P) or may be invested in the BGI Liquidity UCIT (the latter being predominantly the case).

Each fund whether unit-linked or non-linked will have its own tailored investment strategy, objectives and limitations detailed in the service level agreement between New Barclays Life and its investment managers.

Barclays Global Investors Limited ("BGI") is currently the investment manager for all assets of New Barclays Life except property, which is managed by Aberdeen Property Investors Limited. Investment managers have authorities and discretion to manage the investments in line with the strategy set by New Barclays Life from time to time and subject to the limitations in the service level agreement (see "– Unit-linked fund objectives – Investment controls" below).

Equity funds are well diversified with a large number of holdings and limited concentration of risk to individual shares or sectors. The aim is consistently to outperform over the longer term the benchmark which New Barclays Life sets the investment manager from time to time.

The Fixed Interest, Property and Cash funds are actively managed but with a view to controlling volatility against the benchmark which New Barclays Life sets the investment manager from time to time. The aim is to outperform the peer group of similar competitor funds over various time horizons.

**Unit-Linked Fund Objectives**

Each unit-linked fund has its own objective and this determines the strategies implemented and the investments selected for each fund. The definition of each fund provided to policyholders of unit-linked policies is as follows:

Managed Fund	Comprises primarily a mix of UK and international stocks and shares, government and fixed interest securities, cash deposits and property, through a selection of the other funds listed below.
U.K. Equity Fund	Invests principally in a wide range of UK stocks and shares. It aims through its diverse holdings to achieve long term growth, whilst protecting the investor from the higher risks associated with direct investment in a narrower range of equities.
U.K. Enterprise Fund	This fund is made up of a wide range of UK equities, a proportion of which carry a higher risk profile. Through this higher risk profile it has the potential to provide a higher rate of return.
International Fund	Provides the opportunity to invest in a wide range of worldwide stocks and shares particularly in Europe, the Far East and North America.
Property Fund	Aims to take advantage of growth in the value of quality UK industrial and commercial properties, including shops, offices and factories.
Gilt Edged Fund	Invests in UK Government securities, other fixed interest securities and short term money market deposits. This fund provides the prospect of modest growth with security.
Secure Growth Fund	Invests in short term deposits with banks, financial institutions and local authorities. The fund has the benefit of a return in line with bank and building society deposits.

**Investment Strategy**

Investment strategy is determined individually for each fund by New Barclays Life. New Barclays Life reviews the investment strategy regularly in the light of market conditions, investment performance and any other relevant factors such as regulatory change.

For all cash and debt investments, there is a counterparty exposure limit, a restriction to Sterling denominated investments only, and minimum credit ratings apply (see above under “– Asset Investment”).

The distribution of assets in the segregated unit-linked funds (including the investment in such funds by the Managed Funds) at the 30 November 2002 was as follows:

	%
U.K. Equities	58
Overseas Equities	20
Fixed Interest	13
Property	4
Cash	5
	<hr/>
Total	100
	<hr/> <hr/>

The asset mix of the unit-linked funds may change over time dependent primarily on the investment strategy of the Managed Funds. BLAC experienced minimal levels of policyholders switching between funds allocated to their policies; WLAC, prior to the Scheme Date, had only managed funds and a cash fund and experienced little switching. Accordingly policyholder switching is not expected to materially change the asset mix. The long-term asset mix assumed in respect of unit-linked funds for the Base Case, which broadly reflects the above “snapshot” taken as at 31 December 2002, is shown under “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus*”).

**Investment Controls**

The investment policy, approach and strategy of New Barclays Life are subject to various levels of control to meet the fund objectives and to ensure investments are made within the regulatory requirements. While there are general restrictions that apply to all the investments, there are also specific constraints that apply to different investments.

The main general restrictions are as follow:

- any changes to overall instructions and agreed strategy, or actions outside previously agreed authority levels must be agreed with the managing director and the appointed actuary of New Barclays Life.
- any significant long-term strategic changes to overall instructions to fund managers will be made by amendment to the servicing agreement between New Barclays Life and BGI (or Aberdeen Property Investors Limited). In the case of unit-linked funds, changes are required to be ratified by the New Barclays Life’s Executive Investment Committee (the “**Executive Investment Committee**”) or, if required urgently, by the appointed actuary of New Barclays Life.

The main process for monitoring and controlling New Barclays Life’s investment managers is through regular quarterly meetings between the Executive Investment Committee and BGI and semi-annual meetings with Aberdeen Property Investors Limited. Three major functions are carried out for these meetings:

- a standard reporting pack is produced by the investment manager which:
  - demonstrates compliance with existing servicing level agreement limitations and controls, showing where there have been exceptions. This includes checks on active risk taken, asset allocation, compliance with the minimum credit risks and other parameters that define and control strategy; and
  - gives a detailed analysis of fund performance compared to both benchmark indices and peer group target performance set by New Barclays Life;
- there is a general discussion on performance and any other issues relevant to the investment management of the funds;
- proposals to change the strategy or any other aspects of the management of the funds are made; if they are accepted by the Executive Investment Committee, the changes will be incorporated into the service level agreement.

## Historic Investment Performance

The tables set out in Appendix 1 illustrate the historic performance of the principal funds operated by BLAC and show the relative Micropal performance of such funds over 1, 5 and 10 years.

Micropal statistics are produced by S&P and rank the performance of each fund with reference to other comparable funds in each sector.

The score represents the number of firms ranked higher in the rankings and therefore 100 per cent. would be a low score as it would mean that every other fund in the relevant sector was ranked above the fund in question. A score of 1 per cent. would be the highest possible score meaning that no firms ranked higher than the relevant firm.

Historic performance details are not shown in relation to the historic performance of WLAC as on 16th June 2003 WLAC changed its investment managers to BGI and (in respect of property) Aberdeen Property Investors Limited and the funds WLAC had which corresponded to BLAC funds were merged into the corresponding BLAC funds and are managed by the fund manager who has managed BLAC's funds; accordingly, historic performance of funds operated by WLAC prior to the Scheme Date is unlikely to be of any relevance.

**Actual future experience is likely to differ from historic performance and such variations may be material. Consequently, the inclusion of the historic performance details in Appendix 1 should not be regarded as a representation by New Barclays Life, the Reinsurer, the Issuer, Ambac, Barclays, BLAC, WLAC, Tillinghast, the Lead Manager or any of their respective affiliates or any other person that the future performance will reflect historic performance. Prospective investors are cautioned not to place reliance on such historic performance.**

## Principal Factors Contributing to Surplus Emerging

The principal factors affecting the amount and timing of emergence of surplus depend on the nature of the policies and the associated risks relating to those policies. In looking at factors which affect the amount and time at which surplus emerges, the policies can be divided into the following categories:

- conventional non-participating protection policies;
- conventional non-participating investment policies;
- conventional non-participating annuities;
- unit-linked life policies; and
- unit-linked pension policies.

The following summarises the principal ways in which surplus emerges in respect of the above categories.

### *Conventional non-participating protection policies*

The primary class of policies written by WLAC and BLAC within this category provide a lump sum benefit on death within a specified period or, if a critical illness option is chosen, prior diagnosis of a specified critical illness, in return for a regular premium. A benefit is paid only once. There are some contracts which provide a lump sum benefit only on diagnosis of a specified critical illness. A further class provides regular disability benefit either as a waiver of premium on a policy or as an income while unable to work.

Only policies written by WLAC or BLAC which provide only death cover have non-reviewable premiums. All policies written by WLAC or BLAC which include critical illness or disability income benefits (whether or not they include some death cover) contain reviewable premiums.

For conventional non-participating protection policies reserves are established when the policy is written based on prudent assumed experience of claims, expenses, taxes and investment returns for such policies in the future. To the extent that actual experience – mortality (being the extent claims are made due to insureds' death), morbidity (being the extent to which claims are made due to insureds' suffering a specified critical illness or disability), expenses, taxes and investment returns – over a year is more favourable than that assumed in respect of that year when the premiums were set and that assumed in setting the reserves for the relevant policies for that year, surplus emerges from such policies for such year.

Contracts contribute to surplus only for as long as premiums continue to be paid. Surplus is therefore sensitive to lapse rates (being the rate at which policies are terminated, other than where a claim is paid on such policy due to the event insured against occurring). Lapses may create a short term increase in surplus through the release of reserves allocated in respect of the policies lapsing but are likely to give rise to a longer term loss of surplus through the loss of the contribution to surplus from such policies. It is generally likely, however, that the short term contribution to surplus will be lower than the longer term loss to surplus.

A significant proportion of the conventional non-participating protection policies (approximately 59 per cent. as at 30 November 2002) were, when originated, related to residential mortgage lending from Barclays or Woolwich plc to the policyholder. Borrowers often view their mortgage and life and critical illness insurance protection as part of a competitive package and will generally transfer their mortgage and protection contract elsewhere at the same time. Conventional non-participating protection policy lapse experience is strongly related to the extent to which borrowers re-mortgage with other lenders (referred to as mortgage plan persistency). The Base Case projections take account of persistency experience to 30 June 2003.

For conventional non-participating protection policies, mortality experience industry-wide has been favourable in recent years, resulting in reduced premium rates for new policies, whereas critical illness experience has been deteriorating.

#### ***Conventional non-participating investment policies***

These are small in number and contribution to surplus is small.

#### ***Conventional non-participating annuities***

All annuities of New Barclays Life arise from unit-linked pension contracts with New Barclays Life vesting at the policyholder's retirement and the amount being applied in purchase of an annuity from New Barclays Life. New Barclays Life has not written, and does not offer, annuities in the open market. Holders of pension savings policies have an option at vesting (the time when the amount saved under a pensions policy is applied in purchasing an annuity) to receive a proportion (generally up to a quarter or a third, the maximum amount being set by legislation) of the amount of the policy value tax free in cash with the balance compulsorily applied to purchase an annuity. Policyholders have an open market option and accordingly can take their annuity with New Barclays Life or with another life company. Annuities, once vested, cannot be surrendered or cancelled (other than through death of the annuitant).

At the time an annuity is granted reserves are established based on prudent assumed experience of mortality, investment returns and expenses. Key contributors to surplus in subsequent years are the variance between anticipated and actual experience on mortality, expenses and investment performance, together with the effect on reserves of changes to assumptions regarding future mortality, investment and return assumptions. For example, to the extent that the investment return achieved is lower than that assumed or the annuitants live longer or expenses are higher, the reserves set aside may be lower than required and the need to increase reserves will reduce surplus. Conversely, to the extent that the investment return achieved is higher than that assumed or the annuitants die sooner than assumed or expenses are lower than assumed, the reserves set aside may be higher than required and the any reduction in reserves will increase surplus.

Reserves set aside for annuities are invested with the aim of matching investment cash flows with payments to the annuitant. The aim is, through matching, to protect surplus on annuities against changes in economic conditions.

The life expectancy of annuitants (referred to as "annuitant longevity") has been increasing industry-wide for some time. The Base Case takes account of New Barclays Life's own experience and adds a margin based on published annuitant mortality tables and an allowance for increasing life expectancy using the most recent published mortality improvement tables.

Although New Barclays Life does not accept applications for new business, it is required to offer new annuities to existing policyholders whose pensions policies vest. New annuities are priced on tables appropriate at the time a contract vests. There is no restriction (other than the need to demonstrate fair competitiveness) on the price of the annuity (subject to the limited guarantees referred to above under "*- Policy categories*").

### ***Unit-linked life policies***

New Barclays Life's unit-linked life policies fall primarily into two main types:

- endowment policies, where the contract carries some mortality/morbidity risk (which generally has a falling cost to New Barclays Life of paying the relevant insurance risk benefit to the policyholder as the value of the investment funds allocated to the policy grows) but has a significant unit-linked investment content; and
- whole of life policies, where the invested sum is low but the mortality/morbidity sum at risk is high.

Non-unit reserves for both contracts are generally low as policy charges are expected to match administration expenses closely and are usually reviewable in line with the national average earnings indicators. Morbidity and mortality charges are age related and reviewable, again eliminating the need for large reserves.

Unit-linked life policies written by BLAC and WLAC normally gave rise to significant charges during the first two years of a policy's life; as BLAC and WLAC ceased to accept new applications in 2001 such charges are not now a material contributor to surplus.

Surplus from unit-linked life policies is primarily sensitive to the funds under management and their growth (through the annual management charge), expenses (including the level of actual and assumed inflation for administering the policies), the rate of tax relief achievable from expenses and the risk experience for insured benefits compared to charges levied for such risks.

In addition, as a bid/offer spread of 5 per cent. arises on allocation of units in respect of new premiums received on unit-linked policies, the extent to which policies lapse or become paid up will affect surplus as such bid/offer spread will not arise.

Lapse experience is important in determining the levels of future surplus expected to arise. A significant proportion of the endowment policies (estimated at in excess of 70 per cent.) were written to finance the repayment of principal on interest-only mortgages related to residential mortgage lending from Barclays or Woolwich plc. Generally borrowers consider the method of making or financing repayment and the mortgage together when considering the competitiveness of their mortgage and endowment lapses therefore reflect the levels of activity in the mortgage market (both re-mortgaging and the extent to which borrowers move house). Expected future investment returns are also recognised as likely to be lower in the current low inflation environment than was true when most unit-linked life policies written by BLAC and WLAC were written. All life insurance companies selling endowment policies have been required to write to policyholders showing the projected benefits under their policies using current FSA projections rates, which are usually lower than the rates used when the policy was acquired. Combined with recent falls in the markets, the revised projections may show a shortfall in the amount projected against the amount required to repay the related mortgage, giving rise to an increase in the number of customer complaints, which the FSA have indicated should be considered favourably. Some such customers are now seeking to replace interest-only mortgages backed by endowments with repayment mortgages and lapse rates are currently at an all time high. The Base Case takes account of recent lapse experience (see "*The Base Case – Description of the Base Case*", "*The Base Case – Base Case*" and "*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*" below).

### ***Unit-linked pension policies***

Pension plans written by BLAC and WLAC were mostly adjusted from April 2001 to reduce the charges to the levels permitted for stakeholder pensions. The contribution to surplus from pension plans is effectively the annual management charge which is levied at the rate of 1 per cent. of the daily value of units allocated to such policies from which expenses of administration and investment management need to be met.

Surrender rates of unit-linked pensions policies are low as policyholders cannot withdraw assets in cash but must transfer funds to another UK pension plan, or purchase an annuity at retirement or early retirement. Surrender rates are currently around 1 per cent. per annum. Non-unit reserves are calculated on the basis that no further contributions are paid.

Surplus is primarily sensitive to the funds under management and their growth and expenses being favourable and the level of inflation for administering the policies.

To reduce fixed costs in the business, New Barclays Life has outsourced the provision of administration to Liberata under the Outsourcing Agreement; after the initial transition period, the method of determining a significant proportion of annual administration expenses (in excess of 50 per cent.) has thereby been fixed (subject to increases reflecting inflation or national average earnings). However, to the extent that the costs of administration rise, it may adversely affect surplus emerging.

### **Principal Risks to the Emergence of Surplus**

The amount and the timing of the emergence of surplus arising on the business, and hence its value, will depend on the actual experience of the business and expected future experience which affects reserving parameters. The main factors which will affect surplus in any period are the actual investment returns achieved, actual mortality, morbidity and longevity, actual lapse rates, actual expenses and expense inflation and taxation. In addition, should future expectation of these factors change (either through a factual change, such as a change in taxation rates, or a prudent assessment of future experience, such as an increase in annuitant's life expectancy), this is likely to result in a change in reserving levels.

In projecting surplus, the main factors affecting the future valuation of surplus are the assumptions made about investment returns, mortality, morbidity and longevity, persistency rates, expenses and expense inflation, and taxation, and the rate at which reserves will be released (or increased).

This section describes certain of these and other risks which may have an impact on surplus. Other aspects of risks are also referred to elsewhere in this document, including in particular, the previous section headed “– *Principal factors contributing to the emergence of surplus*”.

### ***Investment Returns***

#### ***Unit-linked business***

The annual management charge for unit-linked policies is calculated as a percentage of the value of units allocated to policies on a daily basis; accordingly the amount of the annual management charge will be affected by, *inter alia*, volatility in asset values.

The type of asset in which units are invested and the overall asset mix also affects investment returns. New Barclays Life does not carry on a with profits business; the investment returns on the unit-linked funds is a risk borne primarily by the policyholders invested in such funds. Accordingly, unlike many profit participating (that is, “with profits”) life companies, where the equity content of the investment funds has been reduced dramatically to protect solvency, New Barclays Life funds continue with a high equity content. This is reflected in the Base Case Assumptions relating to asset mix (see “*The Base Case – Base Case Assumptions used in determining Relevant Regulatory Surplus Amounts*” below).

#### ***Conventional non-participating business (life and pensions including annuities)***

The main investment return risks in respect of conventional non-participating business (life and pensions including annuities) are the risks that interest rates move unfavourably to that assumed for the policy, or that assets are not sufficiently well matched to liabilities or that assets default, in each case resulting in a corresponding reduction in surplus.

### ***Mortality and Morbidity risks***

Mortality risks and morbidity risks affect the emergence of surplus in different ways depending on the type of policy. For annuities, the issue is dealt with below under “– *Longevity*”. In relation to conventional non-participating products and the risk benefit (non-investment) component of unit-linked products (such as life insurance, critical illness, permanent health insurance and disability), the greatest risk is that mortality and/or morbidity levels are higher than assumed at the time of underwriting (or the last review of premiums, where this is permitted) with the result that underwriting profit is lower than projected and reserves prove to be insufficient (with the result that additional reserves need to be set aside, thereby reducing surplus). In relation to the investment component of unit-linked business there is a second order impact as the value of assets under management is reduced; there will therefore be a lower annual management charge, though this effect is not generally material.



Exposure to mortality and morbidity claims is greatly reduced through the large number of contracts and the narrow spread of contract size. There is low risk to large contracts, partly because the nature of the business has been originated by a tied sales force through Barclays' and Woolwich plc's personal customer bases and there are, statistically speaking, only a small number of large contracts and partly through reinsurance (see "*Reinsurance*" above).

Critical illness experience has been deteriorating in recent periods, however exposure is limited through reinsurance contracts with some guarantees. In addition all contracts with critical illness options include premium reviewability facilities, though reviews may generally only be carried out periodically.

Under the principles of financial management of New Barclays Life, morbidity and mortality charges may be reviewed upwards, where permitted, having regard to New Barclays Life's and industry-wide experience or other relevant factors only if New Barclays Life's appointed actuary has formally concluded that it is appropriate in the circumstances.

### ***Longevity***

For annuity business, surplus emerges as the difference between reserves established based on interest rate and mortality assumptions set when the annuity is granted and actual experience. In particular, if annuitants live longer than expected in the assumptions, surplus may be reduced because future annuity payments are higher than anticipated.

Life expectancy of annuitants has been increasing and may be expected to continue to increase. The Base Case includes an up to date (as at 31 December 2002) mortality experience and mortality improvement allowance, both for reserves and actual experience, which is reviewed regularly.

New annuities are priced on a basis which can include full allowance for any revised longevity expectations.

### ***Persistency (early termination)***

Early termination occurs where a policy ceases otherwise than due to the death or critical illness of the insured or the early retirement of the insured or becomes paid up (which may occur where a policyholder ceases to continue paying regular premiums expected to be paid but does not terminate the policy). For unit-linked policies, the principal effect is to reduce the assets allocated to policies and accordingly the annual management charge. For conventional non-participating policies (other than annuities), the effect may give rise to a short term increase in surplus arising from a release of expense and mortality/morbidity reserves but over the longer term a reduction in surplus is commonly greater.

Persistency rates depend to some extent on economic conditions and market conditions (such as, in the case of unit-linked endowment policies, high mortgage activity), but might also be affected significantly by regulatory changes, or events which might be specific to New Barclays Life. BLAC and WLAC suffered poor persistency experience on non-pension products during their financial year ending 30 November 2002, which has continued. This has been taken into account in determining the lapse rates assumed for the Base Case Assumptions.

### ***Expenses***

The amount of surplus is affected by the expenses of administering the policies and other expenses of New Barclays Life. To the extent that expenses increase at a rate greater than that projected for the Base Case, the Relevant Regulatory Surplus Amount may be lower than that projected for the Base Case.

BLAC and WLAC took major steps to reduce costs since ceasing to accept new applications for business in 2001. Costs have reduced from an aggregate of £157,960,000 for their respective financial year ending 31 December 2000 to an aggregate of £91,753,000 for their respective financial year ending 30 November 2002. In addition, BLAC and WLAC recognised the importance of reducing the fixed costs of their businesses and commenced a programme of outsourcing essential services. Since 1 November 2002 policy administration services have been outsourced to Liberata and in September 2003 certain actuarial services were outsourced to a firm of consulting actuaries.

In the short term New Barclays Life is incurring costs to transfer administration from New Barclays Life legacy systems to Liberata. Normal Liberata charges after transition will be calculated purely by activity levels.

By outsourcing the provision of administration to Liberata under the Outsourcing Agreement, the method of determining a significant proportion of annual administration expenses (in excess of 50 per cent.) has thereby been fixed (subject to increases reflecting inflation or national average earnings). However, to the extent that the costs of administration rise, it may adversely affect surplus emerging. To the extent that the remaining fixed costs are spread over a diminishing number of contracts, persistency rates are a material factor in per policy cost inflation.

To the extent that expense inflation exceeds that assumed, expense inflation risk remains in respect of services retained within New Barclays Life.

### ***Mis-selling***

#### ***Endowment mis-selling***

A significant proportion of the endowment policies (estimated at in excess of 70 per cent.) were written to finance the repayment of principal on interest-only mortgages related to residential mortgage lending from Barclays or Woolwich plc. Expected future investment returns are now recognised as likely to be lower in the current low inflation environment than was the case when most unit-linked endowment policies were written by BLAC and WLAC. All life insurance companies selling endowment policies have been required to write to policyholders showing the projected benefits under their policies using current FSA projections rates, which are usually lower than the rates used when the policy was acquired. Combined with recent falls in the markets, the revised projections may show a shortfall in the amount projected against the amount required to repay the related mortgage, giving rise to an increase in the number of customer complaints, which the FSA have indicated should be considered favourably. Some such customers are now seeking to replace interest-only mortgages backed by endowments with repayment mortgages and lapse rates are currently at an all time high. The Base Case takes account of recent lapse experience (see “*The Base Case – Description of the Base Case*”, “*The Base Case – Base Case*” and “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*” below). Higher lapse rates than expected could reduce the overall value allocated to unit-linked policies where the policy is terminated thereby adversely affecting the amount of the annual management charge.

#### ***Pensions mis-selling***

With regard to pensions mis-selling, BLAC and WLAC have substantially completed the reviews required and have reached settlement other than in a small number of outstanding cases for which New Barclays Life maintains reserves considered by it to be appropriate.

#### ***Miscellaneous***

Under the Subordinated Loan, Barclays will agree either to advance to the Issuer Further Advances to compensate for the reduction in surplus emerging each year as a result of, or to provide additional funds to New Barclays Life to establish a reserve for actual or expected compensation for, and costs of, such mis-selling so that liabilities for mis-selling do not materially adversely affect the emergence of surplus (see “*Summary of the Transaction Documents – Subordinated Loan Agreement – Deemed Warranties*”).

There is a secondary risk that such policies will lapse or become paid up, reducing the amount of surplus emerging in the future. No compensation is available from Barclays in respect of such loss of surplus. This loss of surplus may be reduced where such policies are replaced by term assurances.

#### ***Strengthening of reserves***

In accordance with the Financial Services and Markets Act 2000 and regulations made thereunder, New Barclays Life has to calculate and hold reserves appropriate for each policy. If the valuation basis for determining reserves is altered, the change may lead to an increase or fall in the amount of reserves and this will reduce or increase surplus. The timing of the emergence of surplus will therefore be affected by any changes to the valuation basis for determining reserves. Changes to such basis may occur in response to changing experience or changes to requirements arising from

regulation or practice, including fiscal laws. Actual future experience will determine the extent to which this strengthening of reserves represents an actual reduction in surplus rather than a deferral of surplus.

Some protection against arbitrary changes in the valuation basis for determining reserves is provided by regulation which prohibits arbitrary changes. In addition, the procedure under which Relevant Regulatory Surplus Amount is determined provides for Ambac (for so long as Ambac is the Controlling Beneficiary, and thereafter the Note Trustee) to be able to consider changes to the reserving basis and where a change is not a Permitted Change, to require that Barclays makes a Further Advance under the Subordinated Loan Agreement to reflect the difference (see “*Summary of the Transaction Documents – Subordinated Loan Agreement – Process for determining Relevant Regulatory Surplus Amount*” below).

### ***Taxation***

In principle, tax on investment income and realised capital gains for life products and on profits for pensions products reduces surplus while relief for the annual administration expenses of life products also increases surplus by reducing the effective amount of such expenses. Provision is made for tax on unrealised capital gains attributable to life policies within unit-linked funds. Any variation between the actual and assumed provision is a cost/release to that fund. There are some old contracts for which such provision for tax on capital gains lies outside the investment funds but prudent reserves are held for such liability and deductions from contracts are effectively discretionary. Rates of taxation on life business and pensions profits, and the basis for taxation may change in the future; accordingly, the amount of surplus could be reduced as a result of changes in tax law (including rates of tax).

### ***Reinsurance counterparty credit risks***

The use of reinsurance on the life assurance business exposes the company to a risk that the reinsurer is unable to meet claims. However, the three main reinsurers (excluding the Reinsurer) currently used by New Barclays Life have the claims paying ratings set out in “– *Reinsurance*”. In addition, currently, premium payments to the reinsurers are expected to be higher than reinsurance recoveries made.

## THE BASE CASE

### DESCRIPTION OF THE BASE CASE

The Relevant Regulatory Surplus Amount that is projected to be generated has been calculated for each of the 10 Calculation Periods to November 2012 and, for illustrative purposes, for the remaining Calculation Periods after November 2012. These projections together with the projections in Appendix 5 have been prepared by New Barclays Life using actual data as at 30 November 2002 and applying the Base Case Assumptions summarised below under (“– *Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*”) and reported on by Tillinghast as set out under “*Actuaries’ Report*” below. Insofar as any amounts due on the Reinsurer Loan remain outstanding after the expected maturity date in April 2013, Relevant Regulatory Surplus Amounts arising thereafter will be available to fund interest and principal on the Reinsurer Loan and, to the extent so paid to the Issuer, will be available to be paid to Noteholders (or, to the extent that Ambac has paid Scheduled Interest or Ultimate Principal on the Notes, Ambac under the Guarantee and Reimbursement Agreement).

### BASE CASE

The following table sets out the Base Case for this Offering Circular projected for the period to the Final Maturity of the Notes

<i>Calculation Period ending 30 November</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Cost<sup>3</sup></i>	<i>Base Case Amortisation Profile<sup>4</sup></i>
	<i>(all figures in £000,000)</i>			
2003	915	124	11	287
2004	868	100	18	205
2005	817	90	13	128
2006	773	84	9	53
2007	733	80	3	0
2008	694	72	0	0
2009	662	70	0	0
2010	629	67	0	0
2011	598	64	0	0
2012	567	61	0	0
2013 onward <sup>5</sup>	539	835	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premiums payable to Ambac (expressed as a rate per cent. per annum) (the “**Financing Rate**”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to April 15 of the following year: for instance, the 2004 Relevant Regulatory Surplus Amount is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Base Case Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Base Case Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## BASE CASE ASSUMPTIONS USED IN PROJECTING RELEVANT REGULATORY SURPLUS AMOUNTS

The following assumptions relate to the realistic experience projection basis rather than the valuation basis required by the current regulatory regime.

The Base Case (as defined below) projections included above and in Appendix 5 may be ‘forward looking statements’ within the meaning of applicable securities laws. These projections and statements may relate to matters such as assumptions about future experience, including investment returns, tax, early termination rates, paid up rates, mortality, morbidity, expenses, reinsurance and legislation as well as other factors beyond New Barclays Life’s control. Projections and forward looking statements are subject to inherent uncertainties and risk. In light of these risks and uncertainties, actual events and results may vary significantly from those included in, or contemplated or implied by, such projections and forward looking statements. Prospective investors are cautioned not to place undue reliance on such statements.

The projections below (and such projections as are referred to elsewhere in this document) set out (or refer to) (i) a base case (the “**Base Case**”) and (ii) certain scenarios.

- (a) The Base Case is based on the Base Case Assumptions (as defined below).

The Base Case Assumptions relating to discontinuance (being those relating to mortality, morbidity and persistency rates, and paid-up rates all as described below) represent a reasonable estimate, as at 31 December 2002 (the “**Base Case Date**”) (adjusted in the case of persistency only, to the extent considered appropriate by New Barclays Life to take into account actual experience of BLAC and WLAC to 30 June 2003) for New Barclays Life made in accordance with actuarial practice which takes account of the historic experience of New Barclays Life, WLAC and BLAC and, in the case of mortality and morbidity, of information relating to the life assurance industry in respect of comparable business generally available to New Barclays Life as at the Base Case Date.

The Base Case Assumptions relating to investment returns, expense inflation and the risk free investment rate, together (being those related to the long term estimated investment returns by asset class, the future investment return assumption and long term asset allocation assumption, all as described below) represent a reasonable long-term estimate for the projection of the Relevant Regulatory Surplus Amounts in the current and subsequent Calculation Periods, as at the Base Case Date having regard to the conditions at the time as at which the determination was made and made in accordance with actuarial practice.

The Base Case Assumptions relating to other matters have been determined in relation thereto on the basis as described below.

- (b) Tillinghast consider the Base Case Assumptions to be reasonable as at the date as at which they were made (see “*Actuaries’ Report*” below).
- (c) The Base Case Assumptions (which are long term assumptions) are considered by New Barclays Life and Tillinghast to be reasonable at the date of this Offering Circular, taken as a whole over the period to the expected final repayment of the Notes; to the extent that changes in investment returns generally have occurred since the date as at which the Base Case Assumptions were made, New Barclays Life and Tillinghast consider that such changes are not likely to result in a reduction in the amount of Aggregate Relevant Regulatory Surplus projected in the Base Case.
- (d) The scenarios set out under “– *Sensitivity Analysis*” below and in Appendix 5 are designed to illustrate the effects of the variability of certain specific Base Case Assumptions on the Base Case projections, and are not intended to be projections, estimates, forecasts or forward looking statements or indications of the likelihood that these scenarios may occur. These scenarios do not purport to be comprehensive, are not based on any view of BLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or any other person as to the likelihood of their occurrence, are not the worst case scenarios which could prevail and do not reflect variations in anything other than the relevant Base Case Assumptions; other scenarios may show different effects on the Base Case projections (and, accordingly, the ability of the Issuer to pay interest on the Notes may differ from the scenarios illustrated and may be worse).

Actual future experience is likely to differ from that assumed in the calculation of the Base Case, and such variations may be material. Consequently, the inclusion of the Base Case projections herein should not be regarded as a representation by BLAC, WLAC, Tillinghast, the Reinsurer, the Issuer,

Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or any other person that the projections of Relevant Regulatory Surplus Amounts over this period or the projection of Relevant Regulatory Surplus Amount in respect of any particular Calculation Period, will be achieved.

None of BLAC, WLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or any other person undertakes any obligation to update any forward looking statement contained herein.

The assumptions used in the projections of the Relevant Regulatory Surplus Amounts in the Base Case are as follows (collectively, the “**Base Case Assumptions**”).

### **Mortality and Morbidity**

Mortality rates assumed in the Base Case are derived from standard actuarial tables used widely throughout the life assurance industry using appropriate percentages based on New Barclays Life’s (including both BLAC’s and WLAC’s) own experience and future expectations.

Morbidity rates are based on New Barclays Life’s (including both BLAC’s and WLAC’s) own experience and the price paid to reinsurers for reinsuring the sums at risk in respect of morbidity.

### **Early Termination Rates**

The rates of early termination (including lapse rates and the rate at which policies become paid up) (other than in respect of early retirement) assumed in the Base Case vary by policy type based on historic experience of New Barclays Life (including both BLAC and WLAC) as at 30 November 2002 and take account of developments to 30 June 2003 to the extent considered appropriate.

### **Future investment return assumptions**

Future investment returns for the Base Case are projected for the long term based on the gilt yield of 4.5 per cent. per annum as the risk free rate and an assumed equity premium of 2.3 per cent. per annum in relation to UK equities and 3 per cent. per annum for overseas equities. The difference in the equity premiums reflects the irrecoverability of the tax credit on dividends on UK equities. The investment return on property is equal to the overseas equity return. This rate is applied to the assumed asset mix (equity and debt – property for these purposes being treated as equity and cash being treated as debt) to give an average rate used in projecting the investment returns in the Base Case.

It should be noted that in projecting surplus for a particular year (and therefore projecting the expected amount available to amortise Notes in that year) the use of a long term rate has the effect of averaging out years where investment performance is above and below the assumed long term rates, whereas actual surplus in those years will in fact reflect the actual performance (whether below or above the long term rate assumed) which will give rise to greater volatility of actual surplus in each year (and therefore greater variation of the cash flow on the Notes than the Base Case may indicate). A long term rate has been used as short term rates cannot reasonably be projected for each future Calculation Period throughout the term of the Notes. Prospective investors should not assume that the investment returns projected for the Base Case, and therefore the Base Case projections, are likely to emerge in a smooth way as indicated in the Base Case by virtue of the Base Case using a long term rate for the projection.

### **Long term assumed asset allocation**

The above assumed long-term investment returns will be applied to the assumed asset mix:

55% UK Equity

30% overseas Equity/Property

15% Fixed Interest

### **Administration expense assumptions**

The administration expenses assumed are based on the defined schedule of annual costs, as specified in the Outsourcing Agreement (including increases permitted to reflect national average earnings or retail price index inflation as appropriate), together with an allowance for costs retained in New Barclays Life.

## **Inflation**

An average increase in administration costs per unit (for BLAC and WLAC) has been assumed of 4.4% per annum (being 2.0% per annum in excess of the assumed annual rate of increases in the Retail Prices Index of 2.4%).

The assumed rate of increase in the Retail Prices Index has been set at a level which is consistent with the current economic conditions as well as the assumed long term investment returns set out under “– *Future investment return assumption*” above.

## **Taxation**

Tax has been determined on the basis of current law and practice applicable to a proprietary life assurance company.

## **Reserving basis**

The principal elements of the actuarial basis used to determine non-unit reserves as at 30 November 2002 are summarised in note 16 of the financial statements of WLAC included at Appendix 3 (in relation to WLAC) and note 15 of the financial statements of BLAC included at Appendix 4 (in relation to BLAC). A full description is included in the Returns filed by WLAC and BLAC which may be obtained from the Companies Registry, Companies House, Crown Way, Cardiff CF14 3UZ.

## **SENSITIVITY ANALYSIS**

The Base Case set out in “*Description of the Base Case*” above is based upon the Base Case Assumptions (see above). The projection of Relevant Regulatory Surplus Amounts under the Base Case Assumptions can be used to calculate certain coverage ratios.

The “**Aggregate Relevant Regulatory Surplus**” in respect of a period is the amount projected in relation to information and data available as at 31 December 2002 and on the relevant Base Case Assumptions (or, in the case of the sensitivity analysis, as amended by the relevant Sensitivity Assumption(s)) to be the aggregate of Relevant Regulatory Surplus Amounts projected to emerge in respect of each future Calculation Period discounted to 31 October 2003 at a rate equal to the weighted average of the aggregate of the fixed rates of the Swap plus the premiums payable to Ambac.

The Base Case Amortisation Profile represents the outstanding principal of the Notes following the April Interest Payment Date following each Calculation Period on the basis that the Relevant Regulatory Surplus Amounts are as projected in the Base Case and the financing costs are the amount projected under the Base Case Assumptions to be the aggregate of the amount of the Swap Fixed Amount and premiums payable to Ambac on the April Interest Payment Date immediately following each future Calculation Period; costs ranking below interest on the Notes are not included.

The Base Case Assumptions together with the alternatives to the Base Case Assumptions set out below (the “**Sensitivity Assumptions**”), represent possible scenarios designed to illustrate certain payment characteristics of New Barclays Life and are not intended to be projections, estimates, forecasts or forward-looking statements. The table below has been developed by fixing the Base Case Assumptions other than the ones corresponding to the particular Sensitivity Assumption and by applying that Sensitivity Assumption to determine its effect on the amount projected as the Relevant Regulatory Surplus Amounts in respect of each future Calculation Period or as the amount of the Aggregate Relevant Regulatory Surplus. The Sensitivity Assumptions do not represent a complete list of factors that may affect the projection of Relevant Regulatory Surplus Amounts or Aggregate Relevant Regulatory Surplus but rather indicate those factors which are likely to affect the performance of the Policies. In addition, the range of possible outcomes with respect to each Sensitivity Assumption and combinations of the Sensitivity Assumptions set forth below do not purport to be a comprehensive set of possible results for the policies, are not based on any view of BLAC, Tillinghast, the Reinsurer, the Issuer, Ambac, Barclays, New Barclays Life, the Lead Manager or any of their respective affiliates or any other person as to the likelihood of their occurrence, are not the worst case scenarios which could prevail and do not reflect variations in anything other than the relevant Base Case Assumptions. In particular, more severe assumptions may show payments of interest and/or principal on the Notes being delayed or decreased.

Prospective Noteholders should note that the following table is intended merely to illustrate certain, but not all, payment sensitivities of the Notes to certain, but not all, market and economic stresses. It is highly likely that actual experience of the Policies will vary from the Base Case Assumptions and from the Sensitivity Assumptions and the possible scenarios represented by the tables. Some of

the principal factors that could cause the actual Relevant Regulatory Surplus to differ materially from such scenarios are described in “*Relevant Regulatory Surplus – summary of factors affecting the amount of Relevant Regulatory Surplus Amounts*” and “*Investment Considerations*” above.

The Sensitivity Assumptions for the various scenarios are set out below. Appendix 5 sets out the full projections applying the relevant Base Case Assumptions as amended by the relevant Sensitivity Assumption below. Below is a summary of these tables and the relevant scenarios.

#### **Scenario 1 Higher mortality and morbidity rates**

This scenario is based upon the Base Case Assumptions except that experienced mortality and morbidity rates are assumed to be 25 per cent. higher for all types of policy (other than annuities) than the mortality and morbidity rates projected in the Base Case Assumptions. The statutory reserving basis has been strengthened where necessary to maintain adequate prudential margins over the experience basis.

#### **Scenario 2 Higher early termination rates**

This scenario is based upon the Base Case Assumptions except that early termination rates (including retirement and paid-up rates) for all types of policy (excluding annuities) are assumed to be 25 per cent. higher than the early termination (including retirement and paid-up) rates projected in the Base Case Assumptions.

#### **Scenario 3 Lower overall investment returns**

This scenario is based upon the Base Case Assumptions except that for unit-linked funds overall rates of pre-tax investment return are assumed to be 100 basis points per annum lower than the projected rates of investment return throughout the term of the transaction. The lower return has also been reflected in the non-unit reserve calculations for unit-linked policies.

#### **Scenario 4 Immediate fall in market value of investments**

This scenario is based upon the Base Case Assumptions except that there is assumed to be a fall of 20 per cent. in the capital values of equity and property unit-linked assets over the first year. The 20 per cent. fall has been reflected in the non-unit reserve calculations for unit-linked policies.

#### **Scenario 5 Higher expense inflation**

This scenario is based upon the Base Case Assumptions except that the annual rate of inflation in administration expenses is 100 basis points higher. The Base Case Assumption for the Retail Prices Index inflation remains the same. The 100 basis point increase has also been reflected in the reserving calculations for the BLAC business.

#### **Scenario 6 Higher mortality and morbidity rates, higher early termination rates and lower overall investment returns**

This scenario is based upon the Base Case Assumptions except that the mortality and morbidity rates, early termination rates and overall investment returns are those set out in, respectively, 1, 2 and 3 above.

#### **Summary of Base Case against Scenarios 1 to 6 (inclusive)**

The table below sets out the Aggregate Relevant Regulatory Surplus, the Interest Coverage Ratio and the Base Case Amortisation Profile for the Base Case and the impact on these items of the changes in Sensitivity Assumptions referred to above. The results show that, on the assumptions made, the Relevant Regulatory Surplus Amounts are sufficient to fund scheduled interest and principal payments in all the above projections.



<i>Scenario</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i> <i>£000,000s</i>	<i>Principal Coverage Ratio<sup>2</sup></i>	<i>Expected Final Maturity Date of the Notes<sup>3</sup></i>
Base Case	915	2.3	15 April 2008
Scenario 1	849	2.1	15 April 2009
Scenario 2	867	2.2	15 April 2008
Scenario 3	865	2.2	15 April 2009
Scenario 4	835	2.1	15 April 2009
Scenario 5	901	2.3	15 April 2009
Scenario 6	758	1.9	15 April 2010

<sup>1</sup> Aggregate Relevant Regulatory Surplus as derived from the Base Case or relevant Scenario as at 31 October 2003.

<sup>2</sup> Principal Coverage Ratio is determined as the Aggregate Relevant Regulatory Surplus divided by the initial aggregate Principal Amount Outstanding of the Notes, as derived from the Base Case or relevant Scenario, as set out in more detail in Appendix 5.

<sup>3</sup> The Expected Final Maturity Date of the Notes is the date on which, were the projections to be correct, no Notes would remain outstanding.

## ACTUARIES' REPORT

The following is the text of a report received by, *inter alios*, the Directors of New Barclays Life and the Issuer from Tillinghast, the consulting actuaries to New Barclays Life.

"The Directors

Gracechurch Life Finance p.l.c.  
Trinity House  
Charleston Road  
Ranelagh  
Dublin 6  
Ireland

The Directors

Barclays Capital  
5 The North Colonnade  
Canary Wharf  
London  
E14 4BB

The Directors

Barclays Bank PLC  
54 Lombard Street  
London  
EC3P 3AH

The Directors

The Bank of New York  
acting through its London Branch  
One Canada Square  
London  
E14 5AL

The Directors

BLAC Limited  
Murray House  
1 Royal Mint Court  
London  
EC3N 4HH

The Directors

Barclays Life Assurance Company Limited  
(formerly Woolwich Life Assurance Company Limited)  
54 Lombard Street  
London  
EC3P 3AH

The Directors

Barclays Reinsurance Dublin Limited  
47/49 St Stephen's Green  
Dublin 2  
Ireland

31 October 2003

Dear Sirs

### 1. Introduction

Tillinghast-Towers Perrin has been engaged by you to provide actuarial opinions on certain matters in connection with the proposed issue of Floating Rate Secured Notes by Gracechurch Life Finance p.l.c. (the "Issuer"). This letter, which is included in the offering circular dated 31 October 2003, sets out the scope of the work that we have been engaged to undertake and summarises the results of our work.

Terms defined in the Offering Circular have the same meaning in this letter.

### 2. Background

The proceeds of the Notes, together with the Subordinated Loan made available to Issuer by Barclays will be used by the Issuer to make the Reinsurer Loan to the Reinsurer. The Reinsurer's obligations, under the Reinsurer Loan, to make interest payments and to repay principal will be limited in recourse to the Relevant Regulatory Surplus Amounts received from New Barclays Life.

Barclays Life has prepared projections of Relevant Regulatory Surplus Amounts according to a number of scenarios concerning, *inter alia*, future investment returns and operational experience. We have been asked to comment on certain aspects of these projections, namely:

- the reasonableness of the Base Case Assumptions;

- the reasonableness of the modelling systems used to produce the projections; and
- the reasonableness of the results under both the Base Case Assumptions and the Sensitivity Analysis.

Section 3, 4 and 5 describe our work and conclusions. Our conclusions are subject to the Reliances and Limitations set out in Section 6.

### 3. Base Case Assumptions

The Base Case Assumptions, which have been determined by New Barclays Life, (which are set out under the heading “*The Base Case – Base Case Assumptions used in projecting Relevant Regulatory Surplus Amounts*”) have been set having regard to the operating experience of New Barclays Life, BLAC and WLAC, and in respect of future investment return and expense inflation by reference to available yields and market expectations of inflation, in each case as at 31 December 2002.

The bulk of the operational experience analysed relates to periods up to and including 30 November 2002, but future persistency assumptions have, where appropriate, been revised to take into account more recent, adverse, experience to 30 June 2003.

We have reviewed the Base Case Assumptions in the light of operating experience, investment conditions as at the date of which the Base Case Assumptions are stated to be made (subject to the adjustments referred to above) and having regard to our knowledge of the UK life insurance market generally. We have concluded that the Base Case Assumptions are reasonable.

### 4. Modelling Systems

The projections of Relevant Regulatory Surplus Amount prepared by New Barclays Life are derived from a variety of computer systems, including proprietary actuarial projection systems and spreadsheet models. We have carried out extensive checking of these various systems. In particular we have:

- independently reproduced results for sample policies;
- checked that policy data used in the models validates to published summaries of in-force policy data (for example, the number of policies, sum assured, premium, unit fund liabilities); and
- reviewed the spreadsheet models.

In addition, in some areas New Barclays Life uses approximate techniques for the projection. We have reviewed these approximations and concluded that they do not have a material effect on the projection of Relevant Regulatory Surplus Amounts.

Based on our review we have concluded that the modelling systems and approaches used are appropriate for the purpose of projecting Relevant Regulatory Surplus Amounts.

### 5. Results

In addition to the checks noted in Section 4 above, we have:

- checked that the assumptions were input correctly for the Base Case and Sensitivities Analyses;
- reviewed aggregate projection results for reasonableness; and
- in the Sensitivities Analyses, checked that the changes in the components of Relevant Regulatory Surplus Amounts are consistent with the changes in the assumptions.

Based on these checks we have concluded that the projections of Relevant Regulatory Surplus Amounts, including the timing of its emergence, and the projections produced for the scenarios set out in the Sensitivity Analysis, are reasonable.

### 6. Reliances and Limitations

In our work we have relied on audited and unaudited information provided to us by New Barclays Life, WLAC, and BLAC for periods up to and including 30 June 2003, and on information from public sources. Where possible we have reviewed the information provided to us for reasonableness and consistency with our knowledge of the industry but we have not carried out independent checks of the data and other information supplied to us.

We have not reviewed the methodology or assumptions used by New Barclays Life, WLAC or BLAC to establish their regulatory reserves. We have also not reviewed the tax assumptions and methodology used by New Barclays Life, WLAC or BLAC but we have checked that the calculations have been carried out in accordance with advice given to New Barclays Life, WLAC and BLAC. In addition we have not investigated, nor made any allowance for the cost of claims made by policyholders other than in the normal course of business under the terms of the policies issued.

In developing projections of Relevant Regulatory Surplus Amounts, numerous assumptions about future experience have been made by New Barclays Life. Most of these factors are beyond New Barclays Life's control. Actual future experience will differ from the assumptions made for the Base Case, and hence actual future Relevant Regulatory Surplus Amounts will differ from that projected, perhaps materially. The Sensitivity Analysis has been produced to quantify the effect of the specific scenarios illustrated. However the scenarios are in no way intended to represent a likely range of possible outcomes and should not be regarded as such.

We refer to our engagement letter dated 31 October 2003 in relation to other limitations in respect of our liability.

Yours faithfully

**Charles Pickup**

Fellow of the Institute of Actuaries

## SUMMARY OF THE TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the Transaction Documents.*

### THE REINSURANCE AGREEMENT

On 9 September 2003, New Barclays Life entered into the Reinsurance Agreement with the Reinsurer pursuant to which the Reinsurer agreed to provide reinsurance of certain risks in respect of New Barclays Life's life and pensions business with effect from the Scheme Date.

#### Reinsurance Of Unit-Linked Liabilities

Under the Reinsurance Agreement, the Reinsurer has agreed to indemnify New Barclays Life in respect of Unit-Linked Liabilities.

At any time, the aggregate maximum actual and contingent liability of the Reinsurer to indemnify New Barclays Life in respect of payments made or to be made by New Barclays Life in respect of Unit-Linked Liabilities, the amounts of which are, or could be, determined by reference, in part or in full, to the Fund Value of any New Barclays Life Fund, shall be equal to the Fund Value of the Reinsurer Fund which corresponds to such New Barclays Life Fund.

The liability of the Reinsurer in respect of any payment made or to be made by New Barclays Life in respect of any Unit-Linked Liability, the amount of which is, or could be, determined by reference, in part or in full, to the value of a New Barclays Life Fund, shall be the amount given by:

$$\text{Min}\{\text{Max}[0, (\text{RtPayment} - \text{FV}_{CF})], \text{FV}_{RF}\}$$

where –

“**Min{x,y}**” means the lesser of x and y;

“**Max[x,y]**” means the greater of x and y;

“**RtPayment**” means the amount of such payment, calculated by reference to the aggregate Fund Value of New Barclays Life Fund and the Reinsurer Fund that corresponds to New Barclays Life Fund;

“**FV<sub>CF</sub>**” means the Fund Value of New Barclays Life Fund, provided that, where such payment becomes due between a Calculation Date and the Payment Date on which there is to be applied the Relevant Regulatory Surplus Amount in respect of the Calculation Period ending on that Calculation Date, “**FV<sub>CF</sub>**” shall mean the Fund Value of New Barclays Life Fund after completion of any transaction taking effect on and from that Calculation Date pursuant to the terms of the Reinsurance Agreement; and

“**FV<sub>RF</sub>**” means the Fund Value of the Reinsurer Fund that corresponds to New Barclays Life Fund, provided that, where such payment becomes due between a Calculation Date and the Payment Date on which there is to be applied the Relevant Regulatory Surplus Amount in respect of the Calculation Period ending on that Calculation Date, “**FV<sub>RF</sub>**” shall mean the Fund Value of the Reinsurer Fund after completion of any transaction taking effect on and from the Calculation Date pursuant to the Reinsurance Agreement.

The Initial Reinsurer Funds had allocated to them the assets acquired by the Reinsurer from Barclays on the Scheme Date and had a value on that date of approximately £752 million. The assets so allocated consisted of a broad spread of UK equities (as to approximately 85 per cent. of the initial Reinsurer Fund Value) and fixed income securities (as to approximately 15 per cent. of the initial Reinsurer Fund Value).

The value of the assets allocated to the Reinsurer Funds may go up or down and the assets may be sold or exchanged for other assets in accordance with the Reinsurance Agreement and the Reinsurer Investment Management and Custody Agreement.

Where:

“**Calculation Date**” means each date which is treated by New Barclays Life for accounting and regulatory purposes as the end of its financial year.

“**Calculation Period**” means the period prior to and including a Calculation Date since the later of, but excluding:

- (a) 30 November 2002; and
- (b) the previous Calculation Date.

“**Barclays Series 1 Life Policy**” means certain specific policies originally issued by BLAC which are listed in the Reinsurance Agreement by reference to certain specific plan names and the associated plan code and version number.

“**Covered Life Policy**” means a Covered Policy underwritten by New Barclays Life other than a Covered Pensions Policy.

“**Covered Pensions Policy**” means a Covered Policy underwritten by New Barclays Life having a description included in Section 431B(2) of the Income and Corporation Taxes Act 1988 and classified for the purposes of that section as “pension business”.

“**Covered Policy**” means any contract of insurance of New Barclays Life, the benefits of which are, or could be, determined, in part or in full, by reference to the value of a New Barclays Life Fund, other than a Barclays Series 1 Life Policy.

“**Fund Value**” means, in relation to a New Barclays Life Fund or a Reinsurer Fund, the aggregate market value of the assets and accrued income comprising New Barclays Life Fund or the Reinsurer Fund, without deduction in respect of any amount accounted for as tax reserve or management charge where such amount has not actually been deducted from New Barclays Life Fund or from the Reinsurer Fund, provided that -

- (a) in the case of a New Barclays Life Fund, “Fund Value” shall not include the benefit of any reinsurance hereunder as an asset thereof, but shall include the benefit of any other reinsurance provided to New Barclays Life in respect of Unit-Linked Liabilities linked thereto; and
- (b) in the case of a Reinsurer Fund, “Fund Value” shall not include the benefit of any rights of the Reinsurer hereunder as an asset thereof.

“**New Barclays Life Fund**” means an internal linked fund of New Barclays Life maintained in order to:

- (a) match, in part or in full, New Barclays Life’s liabilities in respect of any contract of insurance, the benefits of which are, or could be, determined, in part or in full, by reference to the Fund Value thereof; and
- (b) make provision for the ongoing operation of the fund.

“**Payment Date**” means:

- (a) where the date which is treated by New Barclays Life for accounting and regulatory purposes as the end of its financial year is 30 November, 31 March in the following year, or, where that day is not a Business Day, the immediately preceding Business Day; or
- (b) where the date which is treated by New Barclays Life for accounting and regulatory purposes as the end of its financial year is a date other than 30 November, the date falling three months after that date, or, where that day is not a Business Day, the immediately subsequent Business Day.

“**Reinsurer Fund**” means an internal linked fund of the Reinsurer, corresponding to a New Barclays Life Fund, maintained by the Reinsurer in order to match its liabilities hereunder in respect of Unit-Linked Liabilities, being an internal linked fund described in the Reinsurance Agreement or another internal linked fund agreed by the parties. The Reinsurer Funds are managed by the Reinsurer Investment Manager and Custodian pursuant to the Reinsurer Investment Management and Custody Agreement (see “- *Reinsurer Investment Management and Custody Agreement*” below).

“**Unit-Linked Liabilities**” means the Unit-Linked Life Liabilities and the Unit-Linked Pensions Liabilities.

**“Unit-Linked Life Liabilities”** means those liabilities of New Barclays Life under Covered Life Policies, the amounts of which are, or could be, determined, in part or in full, by reference to the Fund Value of a New Barclays Life Fund.

**“Unit-Linked Pensions Liabilities”** means those liabilities of New Barclays Life under Covered Pensions Policies, the amounts of which are, or could be, determined, in part or in full, by reference to the Fund Value of a New Barclays Life Fund.

#### **Claims in respect of reinsurance of Unit-Linked Liabilities**

At any time when the liability of the Reinsurer in respect of any payment made or to be made by New Barclays Life in respect of Unit-Linked Liabilities is greater than zero, the Reinsurer shall pay to New Barclays Life, by way of payment of a claim, a sum equal to the amount of that liability.

Any payment by the Reinsurer to New Barclays Life shall be funded by the sale by the Reinsurer of assets contained in the Reinsurer Fund that corresponds to New Barclays Life Fund in respect of which such payment by New Barclays Life is made or is to be made, which assets may be selected by New Barclays Life in its discretion. The proceeds of such a sale of assets contained in a Reinsurer Fund shall, in such circumstances, be made into the New Barclays Life Fund corresponding to that Reinsurer Fund.

Any claim which is required to be paid by the Reinsurer shall be paid within 3 Business Days of notification by New Barclays Life to the Reinsurer of the payment made or to be made by New Barclays Life in respect of which the Reinsurer is liable to pay such claim, except where the payment made or to be made by New Barclays Life in respect of which the Reinsurer is or may be liable to pay a claim becomes due between a Calculation Date and the Payment Date on which there is to be applied the Relevant Regulatory Surplus Amount in respect of the Calculation Period ending on that Calculation Date, in which case no payment by the Reinsurer in respect of the claim shall be due until 3 Business Days after the Payment Date.

The obligations of the Reinsurer are subject to the limitation on recourse and non-petition provisions of the Reinsurer Deed of Charge (see *“Reinsurer Deed of Charge”* below).

#### **Reinsurance Of Mortality Risk And Morbidity Risk**

The Reinsurer has agreed to indemnify New Barclays Life in respect of:

- (a) the liability of New Barclays Life under any Covered Policy in respect of the death of any person, to the extent that that liability exceeds the value of units allocated by New Barclays Life to such Covered Policy;
- (b) the payments required to be made and the costs incurred by New Barclays Life under any Covered Policy, as a result of a disability incurred by any person, in consequence of waiving premium which, but for the incurrence of such disability, would have been payable to New Barclays Life under such Covered Policy, including, without limitation, payments required in consequence thereof to be made in allocating units to such Covered Policy;
- (c) the payments required to be made and the costs incurred by New Barclays Life under any Covered Policy, as a result of a disability or incapacity incurred by any person, by way of income protection benefit, including, without limitation, any payments required in consequence thereof to be made in allocating units to such Covered Policy; and
- (d) the liability of New Barclays Life under any Covered Policy in respect of the incurrence of a critical illness by any person, to the extent that that liability exceeds the value of units allocated by New Barclays Life to such Covered Policy,

in each case as reduced by any amount received by or payable to New Barclays Life in respect of those liabilities, payments and costs under any other reinsurance agreement to which New Barclays Life is a party.

New Barclays Life shall be obliged to pay to the Reinsurer:

- (a) premiums received by New Barclays Life under any Covered Policy in consideration of the agreement of New Barclays Life to make an agreed minimum payment on the death of any person;

- (b) premiums received by New Barclays Life under any Covered Policy in consideration of the agreement of New Barclays Life to waive future premium payable under such Covered Policy on the incurrence by any person of a disability;
- (c) premiums received by New Barclays Life under any Covered Policy in consideration of the agreement of New Barclays Life to provide income protection benefit to any person under such Covered Policy on the incurrence by any person of a disability; and
- (d) premiums received by New Barclays Life under any Covered Policy in consideration of the agreement of New Barclays Life to make an agreed minimum payment on the incurrence by any person of a critical illness,

in each case as reduced by any amount paid or payable by New Barclays Life in respect of those premiums under any other reinsurance agreement to which New Barclays Life is a party:

New Barclays Life will maintain an experience account recording premiums, claims and other liabilities (such as expenses) indemnified; the Reinsurer will pay the excess of claims and other liabilities over premiums. New Barclays Life will be entitled to retain the excess of premiums over claims and other liabilities.

Although New Barclays Life has an obligation to pay premiums to the Reinsurer and the Reinsurer has an obligation to pay claims to New Barclays Life, payments are only required to be made in respect of the mortality and morbidity reinsurance in accordance with an account (the “**Experience Account**”) maintained by New Barclays Life, recording the excess of premiums over claims. Where, on a Calculation Date, the balance of the Experience Account is negative, the Reinsurer is obliged to make payment of a claim in the amount of the negative balance. If, on a Calculation Date, the balance is zero or is positive, no payment is required to be made either by the Reinsurer or New Barclays Life. To the extent that the premiums have exceeded claims, the excess will result in a higher Relevant Regulatory Surplus Amount and, therefore, a greater amount paid by New Barclays Life to the Reinsurer on the following Payment Date.

The Reinsurer shall at all times hold, separately from any Reinsurer Fund, the Reinsurer Advances Account, the Reinsurer Reserve Account and the Reinsurer Transaction Account, reserves in respect of its liabilities in accordance with sound actuarial practices acceptable to New Barclays Life.

The obligations of the Reinsurer are subject to the limitation on recourse and non-petition provisions of the Reinsurer Deed of Charge (see “*Reinsurer Deed of Charge*” below).

#### **Declaration of Relevant Regulatory Surplus Amount**

On or before each Payment Date, New Barclays Life shall notify the Reinsurer of the Relevant Regulatory Surplus Amount in respect of the Calculation Period ending on the Calculation Date on which ended the Calculation Period in respect of which the Relevant Regulatory Surplus Amount is to be applied on such Payment Date. Such Relevant Regulatory Surplus Amount is the amount given by:

$$\text{Max}\{0, RS - PvsSfall - AF - Rlse + SFInject\}$$

where –

“**Max(x,y)**” means the greater of x and y;

“**RS**” means the amount that would have been entered at the Regulatory Surplus Line of a Form 58 completed by New Barclays Life in respect of that Calculation Period (whether or not one had been required to be completed), if no amounts had been taken into account for the purposes of that Form 58 in respect of:

- (a) the recapture of liabilities having effect during that Calculation Period; or
- (b) the amounts of any premium payable and of any Final Life Premium Advance or Reinsurer Advance repayable by New Barclays Life to the Reinsurer, which payments and repayments are taken into account as transactions of that Calculation Period;

except that the amount of tax to be taken into account in the calculation of RS shall be the actual amount of tax entered at the Regulatory Tax Line in the Form 40 completed by New Barclays Life in respect of that Calculation Period or which would have been so entered if New Barclays Life had completed a Form 40 in respect of that Calculation Period and, in determining the amount to be so entered, had taken



into account the amounts payable in respect of transactions mentioned in paragraphs (a) and (b), and, for the avoidance of doubt, in respect of the first Calculation Period, “RS” shall include the surplus that has arisen in the long-term fund of New Barclays Life since 1 December 2002, including that surplus which was attributable to the business carried on by BLAC between 1 December 2002 and the Effective Date;

“PvsSfall” means, unless otherwise taken into account for the purposes of the calculation of Relevant Regulatory Surplus Amount in respect of that Calculation Period, the amount by which the value of “RS-PvsSfall-AF-Rlse+SFIinject” in respect of the Calculation Period immediately preceding that Calculation Period was less than zero, and, for the avoidance of doubt, the value of “PvsSfall” in respect of the first Calculation Period during the Term shall be zero; (this is described further in respect of Involuntary Amounts under “– Interaction between New Barclays Life’s Capital and Retained Surplus and Relevant Regulatory Surplus Amount – Treatment of the Retained Surplus”);

“AF” means, to the extent taken into account in the calculation of “RS” but not already accounted for by the deduction of “PvsSfall”, any Retained Amount other than:

- (a) any Retained Amount which Barclays notifies New Barclays Life must not be excluded from the Relevant Regulatory Surplus Amount in respect of that Calculation Period; or
- (b) any Retained Amount paid or otherwise transferred into any New Barclays Life Fund following the sale of assets by the Reinsurer and payment of proceeds into the Reinsurer Transaction Account described under “– Application of Relevant Regulatory Surplus Amount” below;

“Rlse” means, to the extent not already excluded from the Relevant Regulatory Surplus Amount in respect of that Calculation Period by the deduction of “PvsSfall” or “AF”, any part of “RS” which is or represents the release in that Calculation Period, other than by reason of payment made by New Barclays Life, of any reserve established by New Barclays Life in a previous Calculation Period which was originally funded by any Retained Amount, other than any such part of “RS” which Barclays notifies New Barclays Life must not be excluded from the Relevant Regulatory Surplus Amount in respect of that Calculation Period; and

“SFIinject” means, to the extent not taken into account in the calculation of “RS”, any amount, other than any amount which is or represents an amount held in the shareholders’ fund of New Barclays Life as at the Effective Date, which Barclays notifies New Barclays Life must be included in the Relevant Regulatory Surplus Amount in respect of that Calculation Period.

Under the Subordinated Loan Agreement, Barclays is restricted from giving notifications in relation to AF or SFIinject unless permitted under the Subordinated Loan Agreement or agreed with Ambac (see “– Subordinated Loan Agreement – Deemed Warranties – Funding of Barclays” below). The Subordinated Loan Agreement provides for notifications to be given to implement the funding or repayment or rearranging of funding for Breaches and in certain other limited situations.

In the event that New Barclays Life completes, or could complete, more than one Form 58 and more than one Form 40 in respect of a single Calculation Period, the Relevant Regulatory Surplus Amount in respect of that Calculation Period shall be calculated as though:

- (a) all the amounts entered, or capable of being entered, on all the Forms 58 in respect of that single Calculation Period were combined and entered on a single Form 58; and
- (b) all the amounts entered, or capable of being entered, on all the Forms 40 in respect of that single Calculation Period were combined and entered on a single Form 40.

Where:

“Financial Services Authority” means the Financial Services Authority of the United Kingdom or any successor thereof.

“Form 40” means “Form 40” produced by the Financial Services Authority as an appendix to the Interim Prudential Sourcebook for Insurers, required to be completed and submitted by companies regulated by the Financial Services Authority which carry on long-term insurance business in the United Kingdom, as amended from time to time, or such other form as shall from time to time

provide for the declaration to the Financial Services Authority by such companies of the long-term business revenue account for an accounting period, including the tax charge for that accounting period, or, if there is no such form, the last such form prior to there ceasing to be such a form.

“**Form 58**” means “Form 58” produced by the Financial Services Authority as an appendix to the Interim Prudential Sourcebook for Insurers, required to be completed and submitted by companies regulated by the Financial Services Authority which carry on long-term insurance business in the United Kingdom, as amended from time to time, or such other form as shall from time to time provide for the declaration to the Financial Services Authority by such companies of surplus emerging in their long-term funds or, if there is no such form, the last such form prior to there ceasing to be such a form.

“**Regulatory Surplus Line**” means Line 35 of Form 58 or such other positions on Form 58, as amended from time to time, or on any other form or forms as shall from time to time serve the same purpose as is served by Line 35 of Form 58 as at the Scheme Date.

“**Required Minimum Margin**” means, for the purposes of the Reinsurance Agreement only, the minimum margin of solvency which the New Barclays Life is required to maintain pursuant to any law, rule, regulation or direction of the Financial Services Authority or any other governmental or regulatory authority.

“**Retained Amount**” means, on any Calculation Date, any amount:

- (a) forming part of the shareholders’ fund of New Barclays Life; or
- (b) forming part of the long-term fund of New Barclays Life, which is or represents:
  - (i) the surplus which emerged in the long-term fund of Barclays Life Assurance Company Limited prior to 1 December 2002 which was carried forward therein unappropriated and was transferred to the long-term fund of New Barclays Life pursuant to the Scheme and has not, as at the Effective Date, been appropriated, being a total amount not greater than £127,899,000; or
  - (ii) the surplus which emerged in the long-term fund of New Barclays Life prior to 1 December 2002 which was carried forward therein unappropriated and has not, as at the Effective Date, been appropriated, being a total amount not greater than £17,901,000; or
  - (iii) an amount transferred by way of contribution or loan into the long-term fund of New Barclays Life by any person other than the Reinsurer, including an amount transferred by New Barclays Life from the shareholders’ fund of New Barclays Life, since the Effective Date; or
  - (iv) an amount which represents income or other proceeds of any amount mentioned in paragraph (iii) above.

#### **Application of Relevant Regulatory Surplus Amount**

New Barclays Life shall apply the Relevant Regulatory Surplus Amount in accordance with the priorities set out in the Reinsurance Agreement.

The full amount of the Relevant Regulatory Surplus Amount is required to be applied in one of the ways in (a) to (g) below, while any Senior Funding Amount remain unpaid. While the Relevant Regulatory Surplus Amount and Senior Funding Amount are less than the Reinsurers Fund Value, the Relevant Regulatory Surplus Amount will (absent the assumption of further liabilities referred to in (e)) be applied first in the recapture of Unit-Linked Liabilities. In such a case, were New Barclays Life to fail to pay the Relevant Regulatory Surplus Amount, the Reinsurer would be entitled to sell assets from the Reinsurer Funds of an equivalent value and apply the proceeds of sale to the Reinsurer Transaction Account for use as Reinsurer Available Funds. The corresponding Relevant Regulatory Surplus Amount would be retained by New Barclays Life (and would need to be used to replace the reduction in unit-linked reserves caused by the sale of assets by the Reinsurer).

Accordingly, other than where (e) below is applicable (or where no Notes are outstanding), the full amount of the Relevant Regulatory Surplus Amount is required to be applied in payment to the Reinsurer. Such amount will (after deduction of the Reinsurer Profit Margin) form part of Reinsurer Available Funds and will be paid to the Reinsurer Transaction Account which is secured in favour of, *inter alia*, the Issuer. The effect of (e) is to prevent the amount received by New Barclays Life,

on an assumption of further liabilities, from being paid to the Reinsurer as part of the Relevant Regulatory Surplus Amount as this would reverse the effect of an assumption of further liabilities. It is not expected that the Reinsurer will assume further liabilities.

The appropriate method of application will vary in certain circumstances as provided for in the Reinsurance Agreement but the possible ways in which the Relevant Regulatory Surplus Amount may be applied are:

- (a) in the recapture of Unit-Linked Liabilities (See “– *Recapture of Liabilities*”);
- (b) in making repayment of Reinsurer Advances;
- (c) in payment to the Reinsurer of the Final Life Premium or repayment of the Final Life Premium Advance;
- (d) in payment to the Reinsurer of a Pensions Premium (as defined in the Reinsurance Agreement);
- (e) in the unlikely event that the Reinsurer assumes further Unit-Linked Liabilities (see “– *Assumptions of further Unit-Linked Liabilities*” below) in an amount equal to that part of the Relevant Regulatory Surplus Amount which arose in New Barclays Life in consequence of the assumption of further liabilities by the Reinsurer since the previous Calculation Date or on and from the present Calculation Date, in accrual in New Barclays Life, to be held by New Barclays Life, by investment in accordance with procedures acceptable to the Reinsurer;
- (f) only in situations where the Senior Funding Amount is zero, in accrual of all remaining Relevant Regulatory Surplus Amount in New Barclays Life, to be held by New Barclays Life, by investment in accordance with procedures acceptable to the Reinsurer; and
- (g) in payment to the Reinsurer of a Final Premium (as defined in the Reinsurance Agreement).

Where:

“**Senior Funding Amount**” means the aggregate of amounts remaining payable by the Issuer (ignoring any limitation on recourse and assuming a sufficiency of funds):

- (a) in respect of principal on the Notes or any notes by which the Notes are refinanced;
- (b) under the Guarantee and Reimbursement Agreement;
- (c) in respect of any principal due and payable by the Issuer or which will become due and payable by the Issuer at any time in the future under any other agreement to which the Issuer is party other than the Subordinated Loan Agreement; and
- (d) in respect of any interest or other periodic payment due and payable by the Issuer or which will become due and payable by the Issuer in the twelve months following such date under any agreement to which the Issuer is party other than the Subordinated Loan Agreement, on the assumption that the principal amount of the Notes remains constant during those twelve months;

for which the Issuer has not made provision as permitted by the Issuer Deed of Charge.

### **Recapture of Liabilities**

On and from each Calculation Date, New Barclays Life shall recapture and the Reinsurer shall be released from liabilities:

- (a) in respect of Unit-Linked Life Liabilities specified by New Barclays Life in an aggregate amount equal to the Life Liability Recapture Amount in respect of such Calculation Date; and
- (b) in respect of Unit-Linked Pensions Liabilities specified by New Barclays Life in an aggregate amount equal to the Pensions Liability Recapture Amount in respect of such Calculation Date.

In respect of any Calculation Date, the “**Life Liability Recapture Amount**” and the “**Pensions Liability Recapture Amount**” shall vary depending on the circumstances and shall be calculated in accordance with the provisions of the Reinsurance Agreement.

On and from each Calculation Date, as a transaction of the Calculation Period ending on such Calculation Date, New Barclays Life shall agree to purchase and the Reinsurer shall agree to sell, certain assets which are exempt from Irish stamp duty.

The total purchase price payable by New Barclays Life for the assets which, on and from any Calculation Date, New Barclays Life agrees to purchase and the Reinsurer agrees to sell shall be equal to the aggregate of the Life Liability Recapture Amount and the Pensions Liability Recapture Amount in respect of such Calculation Date.

#### **Pensions Premium**

The amount of the Relevant Regulatory Surplus Amount to be applied in payment to the Reinsurer of Pension Premiums is determined in accordance with the Reinsurance Agreement.

#### **Final Life Premium and Final Life Premium Advance**

The “**Final Life Premium**” is a one-off premium payable by New Barclays Life in particular, unlikely, circumstances on and from the Calculation Date when those unlikely circumstances first arise. It is an amount determined in accordance with the Reinsurance Agreement.

Where the Final Life Premium exceeds the amount of Relevant Regulatory Surplus Amount available to pay it under the Reinsurance Agreement in the Calculation Period in which it is payable:

- (a) the Reinsurer shall make to New Barclays Life, solely by way of set-off, a Final Life Premium Advance in the amount by which the amount of the Final Life Premium exceeds the amount of the Relevant Regulatory Surplus Amount so available; and
- (b) New Barclays Life shall apply the amount of the Relevant Regulatory Surplus Amount so available and the proceeds of the Final Life Premium Advance to make payment in full to the Reinsurer of the Final Life Premium.

On each day on which any part of any Final Life Premium Advance remains outstanding, interest shall accrue on such part of such Final Life Premium Advance and interest accrued which has not been paid prior to such day.

New Barclays Life shall not be required to make repayment of any Final Life Premium Advance or the interest thereon other than by application of the Relevant Regulatory Surplus Amount on each Payment Date on which such Final Life Premium Advance remains outstanding.

In addition, upon the payment by New Barclays Life of the Final Life Premium:

- (a) the Reinsurer shall no longer have any liability to New Barclays Life in respect of any liabilities under any Covered Life Policy, and its only remaining liability under the Reinsurance Agreement shall be in respect of Covered Pensions Policies; and
- (b) New Barclays Life shall no longer owe any obligations to the Reinsurer in respect of any reinsurance of liabilities under any Covered Life Policy, and its only remaining obligations under the Reinsurance Agreement shall be in respect of Covered Pensions Policies.

The release of the Reinsurer, from its liabilities in respect of Covered Life Policies shall not operate to release the Reinsurer from any liability in damages or to any equitable or other remedy in respect of a breach by the Reinsurer of any obligation owed by it pursuant to the Reinsurance Agreement.

#### **Reinsurer Advances**

The Reinsurer shall be entitled to the benefit of:

- (a) any amount deducted, on account of policy charges, from any Reinsurer Fund; and
- (b) any amount deducted, on account of any investment dealing fees or expenses paid or payable by the Reinsurer, including the fees of any custodian, from any Reinsurer Fund.

Such amounts shall be paid into the Reinsurer Advances Account and, after payment therefrom of any amount due and payable by the Reinsurer in respect of investment management fees and expenses and other investment dealing fees and expenses, which payment shall be made by the Reinsurer promptly when due and payable, such amount, shall immediately be advanced to New Barclays Life as a Reinsurer Advance.

New Barclays Life shall not be required to make repayment of any Reinsurer Advance other than by application of the Relevant Regulatory Surplus Amount determined in accordance with the Reinsurance Agreement to be the amount to be applied on the Relevant Payment Date in repayment of Reinsurer Advances outstanding. No interest is payable in respect of any Reinsurer Advance.

### **Assumption of further Unit-Linked Liabilities**

On any date the Reinsurer and New Barclays Life may agree that the Reinsurer should assume further liabilities in respect of Unit-Linked Liabilities in an amount not greater than the aggregate Fund Value of New Barclays Life Funds on such date.

Where the parties have agreed that the Reinsurer shall assume further liabilities, New Barclays Life shall sell to the Reinsurer and the Reinsurer shall, solely by application of amounts standing to the credit of the Reinsurer General Account and to the extent that amounts are available therein, purchase from New Barclays Life, at market value, assets of a type which are exempt from Irish stamp duty having a market value equal to the amount of further liabilities that the parties agreed that the Reinsurer would assume, being assets agreed between the parties and transferred by New Barclays Life out of New Barclays Life Funds. Funds will only be received in the Reinsurer General Account from outside the transactions described in this Offering Circular; accordingly, unless funds are received from someone other than New Barclays Life it is unlikely that the Reinsurer will be able to assume further Unit-Linked Liabilities.

Assets transferred out of any New Barclays Life Fund and purchased by the Reinsurer shall be deposited by the Reinsurer into the Reinsurer Fund which corresponds to such New Barclays Life Fund or into a newly created Reinsurer Fund which shall thereafter correspond to such New Barclays Life Fund.

### **New Barclays Life Representations and Warranties**

New Barclays Life made, with effect from the Effective Date, the following representations and warranties:

- (a) It is a corporation duly organised and validly existing under the laws of its jurisdiction of incorporation.
- (b) The obligations expressed to be assumed by it in the Reinsurance Agreement are legal and valid obligations binding on it and (subject to any bankruptcy, insolvency, liquidation or other similar laws of general application) enforceable against it in accordance with the terms thereof.
- (c) It has all necessary governmental and regulatory authorisation and permission to enable it to carry on the business which it carries on and to exercise its rights and perform its obligations under the Covered Policies and the Reinsurance Agreement.
- (d) Its execution of the Reinsurance Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:
  - (i) contravene or constitute any default under any agreement, mortgage, bond or other instrument to which it is a party or which is binding upon it or any of its assets;
  - (ii) contravene its constitutive documents; or
  - (iii) contravene any applicable law or any rule, regulation or direction of the Financial Services Authority or any other governmental or regulatory authority.
- (e) It has the power to enter into the Reinsurance Agreement and all corporate and other action required to authorise the execution by it of the Reinsurance Agreement and the performance of its obligations hereunder has been duly taken.
- (f) All acts, conditions and things required to be done, fulfilled and performed in order (a) to enable it lawfully to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in the Reinsurance Agreement and (b) to ensure that the obligations expressed to be assumed by it in the Reinsurance Agreement are legal, valid, binding and (subject to any bankruptcy, insolvency, liquidation or other similar laws of general application) enforceable have been done, fulfilled and performed.
- (g) Under the laws of its jurisdiction of incorporation in force at the date hereof, the claims of the Reinsurer against it under the Reinsurance Agreement will rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application or of application to companies carrying on insurance business.

- (h) Under the laws of its jurisdiction of incorporation in force at the date hereof, it is not necessary that the Reinsurance Agreement be filed, recorded or enrolled with any court or other authority in such jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Reinsurance Agreement.
- (i) No corporate action nor any other steps have been taken or legal proceedings been started or (to the best of its knowledge and belief) threatened against New Barclays Life for its winding up, dissolution, administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or, except as is necessary for New Barclays Life to procure the maintenance of the funds required to be held by it for the purposes of its business, for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its assets or revenues.
- (j) It is not in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which might have a material adverse effect on its business or financial condition.
- (k) Save for Permitted Security Interests, no Security Interest exists over all or any of its present or future revenues or assets.

Where:

“Permitted Security Interest” means:

- (a) any lien held in respect of any asset by the investment manager by which such asset is managed or the custodian by which such asset is held; and
- (b) any Security Interest granted in favour of the Reinsurer Security Trustee pursuant to the Reinsurer Deed of Charge.

“Security Interest” means any mortgage, charge, pledge, lien, assignment by way of security, encumbrance, right of set-off, title transfer or retention arrangement or agreement, or any other security interest or preferential arrangement whatsoever, howsoever created or arising.

#### **New Barclays Life Covenants**

New Barclays Life has made the following covenants in favour of the Reinsurer:

- (a) New Barclays Life shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws of its jurisdiction of incorporation to enable it lawfully to enter into and perform its obligations under the Reinsurance Agreement and under the Covered Policies and to exercise its rights under the Covered Policies and to ensure the legality, validity, enforceability and admissibility in evidence in its jurisdiction of incorporation of the Reinsurance Agreement and the Covered Policies.
- (b) New Barclays Life shall observe and comply with all applicable laws and regulations (including, without limitation, any conditions or requirements prescribed thereunder) the failure to observe or comply with which might reasonably be expected to have a material adverse effect on the business or financial condition or prospects of New Barclays Life to perform its obligations under the Reinsurance Agreement or under the Covered Policies or to exercise its rights under the Covered Policies.
- (c) New Barclays Life shall promptly, upon becoming aware of the same, inform the Reinsurer of the occurrence of any breach of the Reinsurance Agreement by New Barclays Life and, upon receipt of a written request to that effect from the Reinsurer, shall confirm in writing to the Reinsurer that, save as previously notified to the Reinsurer or as notified in such confirmation, no breach of the Reinsurance Agreement by New Barclays Life has occurred.
- (d) New Barclays Life shall ensure that at all times the claims of the Reinsurer against it under the Reinsurance Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application or of application to companies carrying on insurance business.
- (e) New Barclays Life shall not create or permit to subsist any Security Interest over all or any of its present or future revenues or assets other than a Permitted Security Interest.

- (f) New Barclays Life shall not, without the prior written consent of the Reinsurer and the Reinsurer Security Trustee, take any step to transfer any part of its business to any other party, provided, however, that nothing in the Reinsurance Agreement shall prevent New Barclays Life from entering into or permitting to subsist any other reinsurance agreement in respect of any of its policies.
- (g) New Barclays Life shall carry on its business in a proper and efficient manner.
- (h) New Barclays Life shall carry out and otherwise perform its rights and obligations in respect of all its policies as would a prudent insurer carrying on a business similar to that of New Barclays Life and otherwise administer its policies and its assets in such a manner as would a prudent insurer carrying on a business similar to that of New Barclays Life.
- (i) New Barclays Life shall promptly notify the Reinsurer of any fact, matter or circumstance which might prevent it from performing its obligations hereunder, including, without limitation, the commencement or threat of commencement of any action or administrative proceeding of or before any court or agency which might have a material adverse effect on its business or financial condition.
- (j) New Barclays Life shall not take or cooperate in the taking of any corporate action or other steps or legal proceedings for its winding up, dissolution, administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment, except as is necessary for New Barclays Life to procure the maintenance of the funds required to be held by it for the purposes of its business, of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its assets or revenues.
- (k) New Barclays Life shall not breach any agreement to which it is a party or which is binding on it or any of its assets.
- (l) New Barclays Life shall at all times maintain a permanent establishment in the United Kingdom.
- (m) New Barclays Life shall not establish any establishment or branch in any jurisdiction other than the United Kingdom.
- (n) New Barclays Life shall co-operate with the Reinsurer to ensure that New Barclays Life and the Reinsurer benefit from all discretions, waivers and reliefs available to either of them under any law or regulation.
- (o) New Barclays Life shall, to the extent to which it may do so without breach of any law, rule, regulation or direction of the Financial Services Authority or any other governmental or regulatory authority, co-operate with Barclays in circumstances where Barclays notifies it that any amount should be included or excluded in the calculation of Relevant Regulatory Surplus Amount in respect of any Calculation Period.
- (p) New Barclays Life shall not pursue a strategy of deliberately investing in assets which are not Admissible Assets with the principal purpose of suppressing or delaying the emergence of the Relevant Regulatory Surplus Amount in respect of any Calculation Period.
- (q) New Barclays Life shall not accept applications for new business (including new contracts of insurance or pension policies), provided that New Barclays Life may:
  - (i) permit new joiners to any existing group pension or life assurance schemes;
  - (ii) permit existing policyholders to enhance existing policies;
  - (iii) permit existing policyholders to reinvest in a new policy upon the termination (in whole or part) of any existing policy;
  - (iv) permit existing policyholders to reinvest in a new policy following the resolution of any complaint relating to the circumstances surrounding the sale of an existing policy to such existing policyholder; or
  - (v) permit existing policyholders to invest in new policies following the exercise of any rights granted pursuant to an existing policy (including writing annuities from pensions policies coming into payment).
- (r) New Barclays Life shall not enter into any further contracts of insurance or pension policies (whether pursuant to a scheme under Part VII and Schedule 12 of the Financial Services and Markets Act 2000 or otherwise) other than in accordance with the Scheme.

- (s) New Barclays Life shall not acquire any company other than the Reinsurer or Barclays Life Assurance Company Limited as a subsidiary or subsidiary undertaking or any holding which would amount to a group undertaking pursuant to Interim Prudential Sourcebook for Insurers.
- (t) New Barclays Life shall record, or procure that there is recorded, on its or its sub contractors' computer systems an accurate record comprised of such information relating to the policies as is necessary to enable New Barclays Life to fulfil its contractual obligations under the policies and properly administer such policies and to enable it to calculate appropriately the Relevant Regulatory Surplus Amount in respect of each Calculation Period.
- (u) New Barclays Life shall maintain, or procure that there are maintained, such computer and other systems and such software licences or enter into such other appropriate arrangements as are necessary to enable it to maintain an accurate record comprised of such information relating to the policies as is necessary to enable New Barclays Life to fulfil its contractual obligations under the policies and to enable it to calculate appropriately the Relevant Regulatory Surplus Amount in respect of each Calculation Period.
- (v) At any time during the Term, New Barclays Life shall maintain in any New Barclays Life Fund to which is linked any Barclays Series 1 Life Policy an amount of assets having an aggregate value not less than the aggregate value of units of such New Barclays Life Fund held in respect of Barclays Series 1 Life Policies, calculated on the basis of the price most recently published by New Barclays Life as the bid price of such units.
- (z) New Barclays Life shall not without the prior written consent of the Reinsurer change the date which it treats for accounting and regulatory purposes as the end of its financial year.

Where:

“**Admissible Assets**” means assets which can be brought into account in accordance with Chapter 4 of the Interim Prudential Sourcebook for Insurers (including, for the avoidance of doubt, Appendix 4.2 thereof) or assets to be invested in the linked funds of New Barclays Life which are “permitted links” in accordance with the Interim Prudential Sourcebook for Insurers.

#### **Reinsurer Representations, Warranties and Covenants**

The Reinsurer made, with effect from the Effective Date, certain representations, warranties and covenants in favour of New Barclays Life.

#### **Termination**

The Reinsurance Agreement shall terminate following the service by New Barclays Life on the Reinsurer, of a notice confirming that New Barclays Life no longer has any liability, actual or contingent, present or future, as insurer in respect of any Covered Policy.

#### **Recourse and non-petition**

The provisions of the clause of the Reinsurer Deed of Charge (as from time to time in effect) headed “Recourse and non-petition” have been incorporated in the Reinsurance Agreement on a *mutatis mutandis* basis and shall be deemed to be part of the Reinsurance Agreement.

#### **Arbitration**

All matters in difference between New Barclays Life and the Reinsurer in relation to the Reinsurance Agreement, including its formation and validity, shall be referred to arbitration.

#### **Governing Law**

The Reinsurance Agreement, the relationship between the parties and all matters arising out of or in any way relating to the Reinsurance Agreement (whether in contract, tort or otherwise) shall be governed by, and interpreted in accordance with, English law.

#### **REINSURER LOAN AGREEMENT**

**Reinsurer Loan:** On or about the Closing Date the Reinsurer will enter into the Reinsurer Loan Agreement with the Issuer under which the Issuer will agree to advance to the Reinsurer on the Closing Date £756,954,189 to enable the Reinsurer to refinance the Reinsurer’s borrowing from



Barclays which was required to fund the Reinsurer's obligations to New Barclays Life under the Reinsurance Agreement, including the acquisition of assets in the Reinsurer Funds relating to reinsurance of the Unit-Linked Liabilities.

The advance made under the Reinsurer Loan Agreement (the "**Reinsurer Loan**") will be made on the Closing Date and is a limited recourse obligation of the Reinsurer.

**Loan Interest Period:** The period for which the Reinsurer Loan is outstanding will be divided into successive periods (each a "**Loan Interest Period**"). The duration of each Loan Interest Period shall be the period commencing on (and including) a Loan Interest Period Date to (but excluding) the immediately succeeding Loan Interest Period Date, provided that the first Loan Interest Period for the Reinsurer Loan shall be a period commencing on (and including) the Closing Date and ending on (but excluding) the immediately succeeding Loan Interest Period Date. "**Loan Interest Period Date**" means 15 April in each year (and if such day is not a Business Day, no adjustment shall be made).

**"Loan Interest Payment Date"** means, in relation to the Reinsurance Loan, the Interest Payment Date falling in April of each year (or, if such day is not a Business Day, the immediately succeeding Business Day).

The rate of interest payable under the Reinsurer Loan Agreement in respect of a Loan Interest Period shall be notified by the Issuer to the Reinsurer at least 5 Business Days prior to the Loan Interest Payment Date on which such interest is payable and:

- (a) be calculated on the basis of actual days elapsed and a year comprising three hundred and sixty-five (365) days (or, if any portion of that Loan Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Loan Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) accrue from day to day from (and including) the first day of such Loan Interest Period to (but excluding) the last day thereof; and
- (c) be paid by the Reinsurer to the Issuer on the relevant scheduled Loan Interest Payment Date.

The interest rate in respect of a Reinsurer Loan Interest Period will be calculated by the Issuer applying the following formula to determine the "**Reinsurer Cost of Funds**":

Aggregate Cost of Funds divided by Reinsurer Loan Outstanding expressed as an annual percentage rate.

Where:

**"Aggregate Cost of Funds"** means, in respect of a Loan Interest Period and the Interest Payment Date corresponding to such Loan Interest Payment Date, the sum of:

- (A) (a) if the Swap Agreement has been in effect throughout the Swap Fixed Rate Period which corresponds to such Loan Interest Period, the aggregate amount accruing in such Loan Interest Period in respect of the Issuer's obligations to the Swap Provider under the Swap Agreement; or
- (b) if the Swap Agreement has not been in effect throughout the Swap Fixed Rate Period which corresponds to such Loan Interest Period, the amount of interest accrued in respect of the Notes (or any replacement notes) in the four Interest Periods corresponding to such Loan Interest Period; or
- (c) if neither (a) nor (b) apply, (i) the aggregate of the amounts (w) accruing under the Swap Agreement in the Swap Fixed Rate Period which corresponds to such Loan Interest Period, (x) payable by the Issuer in respect of any termination of the Swap Agreement other than any Unpaid Amount (as defined in the Swap Agreement), (y) any amounts payable in respect of a replacement of a Swap Provider in such Loan Interest Period and (z) the amounts accrued under the Notes (or any replacement notes) in the four Interest Periods corresponding to such Loan Interest Period on and following the Early Termination Date (as defined in the Swap Agreement) designated under the Swap Agreement, less (ii) to the extent that the Issuer has received a payment in respect of any termination of the Swap Agreement, other than any Unpaid Amount (as defined in the Swap Agreement), such payment after deducting from these any amount paid to any replacement swap provider; and

- (B) the following amounts:
- (a) first, the aggregate of the following amounts in respect of the Loan Interest Payment Date immediately following such Loan Interest Period (i) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Deed of Charge, and (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Note Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest by those amounts) for which it is entitled to be reimbursed or indemnified under the Trust Deed;
  - (b) second, the aggregate of the following amounts in respect of the Loan Interest Payment Date immediately following such Loan Interest Period (i) the fees or other remuneration and indemnity payments (if any) which are then due to each of the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred by any of them (together with interest on those amounts) for which any of them is entitled to be reimbursed or indemnified under the Agency Agreement, (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Account Bank and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Bank Account Agreement (iii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Cash Manager and costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Cash Management Agreement, and (iv) the amount required to fund the Issuer Reserve Account to the amount of £100,000 on such date;
  - (c) third, the fees, costs, liabilities and expenses (together with interest on those amounts) of the Issuer Administrator for which it is entitled to be reimbursed or indemnified under the Issuer Administration Agreement on such Loan Interest Payment Date;
  - (d) fourth, amounts which are then due or which became due from the Issuer during the four Interest Periods corresponding to such Loan Interest Period to third parties under obligations incurred in the ordinary course of the Issuer's business (other than amounts specifically provided for elsewhere in this order of priority), including amounts due to the Rating Agencies, the Irish Stock Exchange, the Issuer's auditors and listing agent and any amounts due to the relevant taxation authority in respect of the Issuer's liability to Irish corporation tax (if any);
  - (e) fifth, the amounts accrued in respect of the premium, fees or other amounts (other than amounts to be reimbursed in respect of payments made by Ambac under any of the Financial Guarantees) (if any) payable to Ambac pursuant to the terms of the Guarantee and Reimbursement Agreement and the actuarial fees reimbursable under the Subordinated Loan Agreement;
  - (f) sixth, all amounts accrued in such Loan Interest Period in respect of the Liquidity Facility Agreement, other than principal;
  - (g) seventh, interest accrued on the Expenses Loan in that Loan Interest Period;
  - (h) eighth, the amount of the Scheduled Expenses Loan Amount payable on such Interest Payment Date;
  - (i) ninth, interest accrued in such Loan Interest Period on the Subordinated Loan; and
  - (j) tenth, 0.01 per cent. of the aggregate of the amounts in (A) and (B) (a) to (i) (inclusive) above,

excluding in any case amounts funded out of the Issuer Reserve Account prior to such Interest Payment Date or taken into account in the calculation of Aggregate Cost of Funds in respect of any preceding Interest Period, and provided that the amount taken into account shall be determined ignoring any limit on recourse or the insufficiency of funds to pay or provide for amounts payable or to be set aside by the Issuer in accordance with the Issuer Priorities of Payment.

**“Reinsurer Loan Outstanding”** means, in respect of a Loan Interest Payment Date, the principal amount outstanding of the Reinsurer Loan immediately prior to such Loan Interest Payment Date.

To the extent that (i) the aggregate of the interest payable by the Reinsurer on a Loan Interest Payment Date (ignoring the ability to defer payments) exceeds (ii) the amount of the Reinsurer Available Funds on such Loan Interest Payment Date, after providing for all amounts payable on such Loan Interest Payment Date higher in the Reinsurer Priority of Payments, such excess shall be deferred and shall be due and payable (together with accrued interest thereon) by the Reinsurer on the next succeeding Loan Interest Payment Date to the extent that the Reinsurer Available Funds (as calculated in respect of such succeeding Loan Interest Payment Date) are sufficient to pay such amounts after providing for all amounts payable on such succeeding Loan Interest Payment Date higher in the Reinsurer Priority of Payments. To the extent that such deferred interest remains unpaid on such succeeding Loan Interest Payment Date, it shall be added to the deferred interest determined in respect of such succeeding due date, and so on in respect of subsequent Loan Interest Payment Dates.

**Withholding tax:** Interest will be paid subject to withholding or deduction for or on account of tax. To the extent any amount is required to be withheld or deducted for or on account of tax, the Reinsurer will either (a) pay such additional amount as will result in the Issuer receiving the amount it would have received had no such withholding or deduction been required or (b) lend to the Issuer such additional amount as will result in the Issuer receiving the amount it would have received had no such withholding or deduction been required (the “**Reinsurer Gross-up Loan**”). Repayment by the Issuer of the Reinsurer Gross-up Loan will be made in accordance with the Issuer’s Priorities of Payment and only to the extent the Issuer has recovered the tax withheld in respect of such Reinsurer Gross-up Loan (see Condition 3(i)(ii)(E)).

**Repayment of the Reinsurer Loan:** On each Loan Interest Payment Date, the Reinsurer Loan will be repaid in an amount equal to the excess of Reinsurer Available Funds over other amounts payable higher in the Reinsurer Priority of Payments.

**Reinsurer Available Funds:** The “**Reinsurer Available Funds**” in respect of a Loan Interest Period is the Relevant Regulatory Surplus Amount (or any other amount) payable (including by way of Set-off) to the Reinsurer by New Barclays Life pursuant to or in respect of the Reinsurance Agreement on the Loan Interest Payment Date falling at the end of such Loan Interest Period plus any amounts received from the Lender in respect of the repayment by the Issuer of any Reinsurer Gross-up Loan made by the Reinsurer pursuant to the terms of the Reinsurer Loan Agreement less the Reinsurer Profit Margin plus, if a Reinsurer Enforcement Event has occurred and the Reinsurer Security has been enforced, the amount standing to the credit of the Reinsurer Reserve Account.

“**Reinsurer Profit Margin**” means an amount, not exceeding 50 per cent. per annum of the Ordinary Expenses incurred by the Reinsurer in carrying out its business, determined by an agreement between the Reinsurer, Barclays Life, the Issuer and the Reinsurer Security Trustee, as the margin of profit, provided that (i) in the absence of any such agreement, the Reinsurer Profit Margin shall be zero and (ii) at any time when any Senior Funding Amount is outstanding, shall not exceed £40,000 per annum.

“**Ordinary Expenses**” means expenses of the Reinsurer prior to enforcement of the Reinsurer Security which rank *pari passu* with or senior to amounts in paragraph (d) under “*Summary of the Transaction Documents – Reinsurer Deed of Charge – Reinsurer Priority of Payment – Reinsurer Funding Priority of Payment*” below.

**Reinsurer Loan Agreement representations, warranties and covenants:** The Reinsurer will give representations and warranties to the Issuer common for transactions of this nature, including in respect of the following matters: its due incorporation; its capacity, power and authority to enter into the Transaction Documents to which it is a party; that such Transaction Documents do not conflict with, *inter alia*, laws and are legal, valid, binding and enforceable (subject to customary exceptions); all filings and authorisations required have been made or obtained; no event of default has occurred; it is not a party to any litigation which may have a Material Adverse Effect (as defined below); all taxes have been paid; the market value of all assets of the Reinsurer that constitute Margin Stock does not exceed 25% of the market value of all assets of the Reinsurer; payments are not subject to withholding taxes; claims under the Reinsurer Loan Agreement are at least *pari passu* ranking with other unsecured claims (other than those mandatorily preferred by law); the effectiveness of choice of English law; it has not (save as described in this Offering Circular) traded since incorporation; it is not subject to insolvency proceedings; no security exists

over its assets other than that created by the Reinsurer Deed of Charge; it is not a party to any other agreements other than as permitted in the Transaction Documents; it is not resident in the United Kingdom and does not have a branch or permanent establishment in the United Kingdom.

In addition, the Reinsurer will undertake with the Issuer in relation to matters common for this type of transaction, including: to perform its obligations under the Transaction Documents to which it is a party; to give notice of the occurrence of any events of default; to obtain licences, consents and authorisations required; to prepare financial statements, to ensure claims remain *pari passu* ranking with other unsecured claims (other than those mandatorily preferred by law); to give notice of creation of security interests other than those permitted under the Transaction Documents; not to amend any Transaction Documents (i) without the prior written consent of the Reinsurer Security Trustee (who, by virtue of the interaction of the Reinsurer and Issuer security arrangements, shall, for so long as Ambac is a Controlling Creditor, act solely at the direction of Ambac and thereafter the Note Trustee), (ii) unless to correct a manifest error, (iii) unless it is of an administrative nature or (iv) unless the Reinsurer Security Trustee determines that the amendment is not materially prejudicial to the Issuer or Ambac; not to carry on any activity other than as contemplated under the Transaction Documents unless it has obtained the prior written consent of the Issuer and Ambac; not, without the prior written consent of the Reinsurer Security Trustee, to permit the market value of its assets that constitute Margin Stock to exceed 25% of the market value of all assets of the Reinsurer; not to enter into any agreement which it is permitted to enter into pursuant to the Reinsurance Agreement unless there is expressly incorporated therein *mutatis mutandis* the provision relating to Recourse and Non Petition from the Reinsurer Deed of Charge; not to acquire any assets, dispose of any assets or enter into any loans or guarantees other than as contemplated by the Transaction Documents; to keep books of account; not to have or form or cause to be formed any subsidiaries or subsidiary undertakings of any nature or have any employees or premises; to hold itself out as a separate entity and to carry out certain related actions; not to create or permit to arise or exist any security interest (including without limitation any floating charge) over all or any of its present or future rights, revenues, undertakings or assets other than under the Reinsurer Deed of Charge.

Where “Margin Stock” means “Margin Stock” as defined in Regulation U of the Board of Governors of the U.S. Federal Reserve System.

The Reinsurer shall not pay any dividend or make any other distribution to its shareholders or issue any further Shares provided always that it may pay a dividend out of the net, after tax, Reinsurer Profit Margin and investment income accruing on the balance held in the Reinsurer Capital Account from time to time.

**Enforcement Events:** The following events will constitute enforcement events with respect to the Reinsurer (“Reinsurer Enforcement Events”):

- (a) **Non-payment:** there are (or would be if the Reinsurer had fully enforced its rights under the Transaction Documents to which it is a party) Reinsurer Available Funds available to pay such amounts after paying or providing for all amounts ranking higher in the Reinsurer Priority of Payments and the Reinsurer fails to pay to the extent of such Reinsurer Available Funds available for such purpose any:
  - (i) amount of interest, deferred interest or repayment of the principal within five (5) Business Days after the due date; or
  - (ii) amount under any other part of the Reinsurer Loan Agreement within five (5) Business Days after the Loan Interest Payment Date following receipt by or on behalf of the Reinsurer of written demand therefor; or
- (b) **Breaches:** the Reinsurer fails to observe or perform, or commits any breach of, or repudiates any of its obligations under any of the provisions of the Reinsurer Loan Agreement or any of the other Transaction Documents to which it is a party, if such default or breach would have a Material Adverse Effect (as defined below), in the case of a failure to perform or breach (and not a payment obligation to which (a) applies (or would apply if there were sufficient Reinsurer Available Funds to make the relevant payment)) and (if remediable in the opinion of the Lender) is not remedied by the Reinsurer within thirty (30) days after written notice from the Reinsurer Security Trustee requesting remedial action; or

- (c) **Misrepresentation:** any representation made or acknowledged to have been made by the Reinsurer in the Reinsurer Loan Agreement or in any of the Transaction Documents shall prove to be or to have been incorrect or misleading in any material respect at the time made and the circumstances or events giving rise to such incorrectness have a Material Adverse Effect, and if capable of remedy in the view of the Reinsurer Security Trustee, is not remedied within thirty (30) days after written notice by the Reinsurer Security Trustee of such misrepresentation; or
- (d) **Liquidation etc:** a petition for the winding-up of the Reinsurer presented before any competent court or any order shall be made or notice published or issued by any competent court or other competent person or a resolution shall be passed by the Reinsurer or any steps taken (whether out of court or otherwise) or any petition presented by any person, for their winding-up, dissolution or striking off, or for the appointment of a liquidator, receiver, administrator, administrative receiver, examiner or trustee or any similar officer of the Reinsurer or of all or a substantial part of its assets or revenues (as the case may be); or
- (e) **Insolvency:** the Reinsurer shall be unable to, or shall admit inability to, or shall be deemed unable to pay its debts as they fall due, or shall declare any moratorium or similar arrangement in respect of its payments to creditors, or shall be adjudicated or found bankrupt or insolvent or shall enter into any composition or other arrangement with its creditors generally; or
- (f) **Analogous Events:** any event or circumstance analogous to any of the events or circumstances described in (d) or (e) above occurs under the laws of any applicable jurisdiction; or
- (g) **Security:** the Reinsurer contests, or threatens to contest, the priority, validity or enforceability of the Reinsurer Deed of Charge or any of the security granted thereunder in favour of the Reinsurer Secured Creditors.
- (h) **Suspension of Business:** the Reinsurer ceases or suspends or threatens to cease or suspend all or a material part of its operations or business for a period of more than 30 days; or
- (i) **Security:** the Security created by the Reinsurer under the Reinsurer Deed of Charge ceases to be in full force and effect under any applicable law; or
- (j) **Repudiation:** any Transaction Document or the security created by any of the Transaction Documents is repudiated by the Reinsurer; or
- (k) **Execution or distress:** any execution, distress or diligence is levied against the whole or any part of the property, undertaking or assets of the Reinsurer or any analogous proceedings shall be commenced against the Reinsurer under the laws of any jurisdiction (disregarding for this purpose any execution or distress relating to assets with an aggregate value not in excess of £5 million where such execution, distress or diligence is being contested in good faith and are stayed or discharged within 30 days).

For the purposes of the Reinsurer Loan Agreement, “**Material Adverse Effect**” means, in respect of a person, any effect which is materially adverse (i) to such person’s ability to perform its obligations under the Transaction Documents to which it is party (in the case of payment obligations, determined ignoring any limitation of recourse) or (ii) in relation to its financial or business condition.

Upon the occurrence of a Reinsurer Enforcement Event, the Issuer or Barclays Life may serve on the Reinsurer Security Trustee a written notice declaring that the Reinsurer Enforcement Event has occurred (a “**Reinsurer Enforcement Notice**”). Following such receipt, the Reinsurer Security Trustee may and shall in accordance with the Reinsurer Loan Agreement:

- (a) declare the Reinsurer Loan to be immediately due and payable (whereupon the same shall become so payable together with any accrued and unpaid interest thereon and any other sums then owed by the Reinsurer); or
- (b) declare the Reinsurer Loan to be due and payable on demand of the Reinsurer Security Trustee; and/or
- (c) without prejudice to the provisions of the Reinsurer Deed of Charge which permit the Reinsurer Security Trustee to enforce the security created thereunder in any other circumstances, exercise all rights and remedies available to it including declaring that the Reinsurer Deed of Charge and the security created thereunder shall have become enforceable (in which event the Reinsurer shall in addition be deemed to be in default).

**Recourse and non-petition:** Under the Reinsurer Loan Agreement, the Issuer will agree that its rights are limited in recourse and not to petition or take any other step for the winding-up of the Reinsurer, as further described under “*Reinsurer Deed of Charge – Recourse and non-petition*”.

#### **REINSURER ADMINISTRATION AGREEMENT**

On or about the Closing Date, the Reinsurer will enter into an agreement with Barclays Management Services (Ireland) Limited (the “**Reinsurer Administrator**”) under which the Reinsurer Administrator will agree to provide corporate, administration and cash management services to the Reinsurer.

The Reinsurer Administrator will be entitled to charge a fee per annum, payable on each Loan Interest Payment Date subject to the Reinsurer having sufficient funds available to pay out of the Reinsurer Available Funds having paid all other higher ranking amounts in the Reinsurer Priority of Payments.

#### **REINSURER INVESTMENT MANAGEMENT AND CUSTODY AGREEMENT**

On or about 26 September 2003 the Reinsurer entered into a custody and investment management agreement (the “**Reinsurer Investment Management and Custody Agreement**”) with Barclays Global Investors Limited (as the “**Reinsurer Investment Manager and Custodian**”) who, in its capacity as Reinsurer Investment Manager and Custodian, is required to invest the assets standing from time to time to the credit of the Reinsurer Securities Accounts in order to meet the Reinsurer’s objective of ensuring that the composition and rate of return in relation to each of the funds managed on behalf of the Reinsurer by the Reinsurer Investment Manager and Custodian mirror those of the corresponding funds managed on behalf of New Barclays Life by Barclays Global Investors Limited and to apply the investment criteria and restrictions applicable in relation to the funds managed on behalf of New Barclays Life by Barclays Global Investors Limited to the corresponding funds managed by the Reinsurer Investment Manager and Custodian on behalf of the Reinsurer, *mutatis mutandis*.

Under the Reinsurer Investment Management and Custody Agreement, the Reinsurer Investment Manager and Custodian may appoint a global sub-custodian and both the Reinsurer Investment Manager and Custodian and global sub-custodian may appoint sub-custodians in individual locations. References to the Reinsurer Investment Manager and Custodian in the Reinsurer Investment Management and Custody Agreement include, where appropriate, any such sub-custodians.

Pursuant to the Reinsurer Investment Management and Custody Agreement, the Reinsurer Investment Manager and Custodian will establish cash and investment accounts in the name of the Reinsurer (collectively, the “**Reinsurer Securities Accounts**” and each a “**Reinsurer Securities Account**”). The Reinsurer Custodian will keep records that identify the Reinsurer’s investments as separate from any other investments held by the Reinsurer Custodian and may pool investments belonging to the Reinsurer with investments belonging to other clients of the Reinsurer Custodian.

#### **REINSURER FUNDING BANK ACCOUNT AGREEMENT**

On or about 26 September 2003 the Reinsurer entered into a bank account agreement (the “**Reinsurer Funding Bank Account Agreement**”) with Barclays (the “**Reinsurer Account Bank**”) pursuant to which the Reinsurer established a transaction bank account (the “**Reinsurer Transaction Account**”) and a bank account into which a reserve amount will be deposited (“**Reinsurer Reserve Account**”).

#### **REINSURER REINSURANCE BANK ACCOUNT AGREEMENT**

On or about 26 September 2003 the Reinsurer entered into a bank account agreement (the “**Reinsurer Reinsurance Bank Account Agreement**”) with the Reinsurer Account Bank pursuant to which the Reinsurer will establish (i) a bank account into which will be paid policy charges deducted from the Reinsurer’s assets prior to Reinsurer Advances being made to New Barclays Life (the “**Reinsurer Advances Account**”), (ii) a bank account into which will be paid the share capital of the Reinsurer and the initial capital contribution and to which the Reinsurer Profit Margin will be

transferred (the “**Reinsurer Capital Account**”), and (iii) a bank account into which amounts used in connection with the assumption of further liabilities under the Reinsurance Agreement will be paid (the “**Reinsurer General Account**”).

## **REINSURER DEED OF CHARGE**

On or about the Closing Date the Reinsurer will create security over all its assets pursuant to a deed of charge (the “**Reinsurer Deed of Charge**”) in favour of The Bank of New York, London Branch as the Reinsurer security trustee (the “**Reinsurer Security Trustee**”) (acting on behalf of (i) itself, the Issuer, the Reinsurer Account Bank (in respect of the Reinsurer Funding Bank Account Agreement) and the Reinsurer Administrator (together, the “**Reinsurer Finance Secured Creditors**”) and (ii) New Barclays Life, the Reinsurer Account Bank (in respect of the Reinsurer Reinsurance Bank Account Agreement) and the Reinsurer Investment Manager and Custodian (together, the “**Reinsurer Reinsurance Secured Creditors**”) and, together with the Reinsurer Finance Secured Creditors, the “**Reinsurer Secured Creditors**”).

### **Reinsurer Security**

The Reinsurer will grant the following security (the “**Reinsurer Security**”) in order to (i) provide security in respect of the obligations of the Reinsurer to the Reinsurer Finance Secured Creditors (the “**Reinsurer Finance Secured Obligations**”) and (ii) provide security in respect of the obligations of the Reinsurer to the Reinsurer Reinsurance Secured Creditors (the “**Reinsurer Reinsurance Secured Obligations**”):

- (1) an assignment, by way of first fixed security for the payment or discharge of the Reinsurer Finance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its rights, title, interest and benefit, existing now or in the future, in, to, under or in respect of:
  - (a) the Reinsurance Agreement;
  - (b) the Reinsurer Funding Bank Account Agreement; and
  - (c) the Reinsurer Administration Agreement other than the Administration Reserved Rights (the Reinsurer Administration Agreement together with the Reinsurance Agreement and the Reinsurer Funding Bank Account Agreement, but excluding the Administration Reserved Rights being the “**Reinsurer Assigned Agreements**”),  
including, save to the extent of the Administration Reserved Rights, without limitation:
    - (i) the benefit of all representations, warranties, covenants, undertakings and indemnities under or in respect of the Reinsurer Assigned Agreements;
    - (ii) all of its rights to receive payment of any amounts which may become payable to it pursuant or with respect to such Reinsurer Assigned Agreements;
    - (iii) all payments received by it pursuant to, or with respect to, such Reinsurer Assigned Agreements;
    - (iv) all its rights to serve notices and/or make demands pursuant to such Reinsurer Assigned Agreements and/or to take such steps as are required to cause payments to become due and payable thereunder or with respect to such Reinsurer Assigned Agreements;
    - (v) all of its rights of action in respect of any breach of such Reinsurer Assigned Agreements; and
    - (vi) all of its rights to receive damages, compensation or obtain other relief in respect of, including in respect of any breach of or default in respect of such Reinsurer Assigned Agreements.

Where:

“**Administration Reserved Rights**” means all rights that the Reinsurer is entitled or empowered to take:

- (a) in relation to the Reinsurer Reinsurance Bank Account Agreement;

- (b) in relation to the Reinsurer Investment Management and Custody Agreement other than in relation to any Finance Investment Management and Custody Rights; or
- (c) in relation to Securities held directly by the Reinsurer and which were acquired out of funds derived from the Reinsurer Reinsurance Security.

“**Finance Investment Management and Custody Rights**” means all rights that the Reinsurer is entitled or empowered to take:

- (a) to give the Reinsurer Investment Manager and Custodian a direction requiring the Reinsurer Investment Manager and Custodian to sell Securities standing to the credit of the Reinsurer Securities Accounts for the purpose of the exercise by the Reinsurer of its rights of set-off under the Reinsurance Agreement; or
  - (b) to require the Reinsurer Investment Manager and Custodian to pay the proceeds of the sale of any Securities sold pursuant to the provisions relating to set-off in the Reinsurance Agreement to the Reinsurer Transaction Account.
- (2) a charge, by way of first fixed security for the payment or discharge of the Reinsurer Finance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its right, title, interest and benefit, existing now or in the future, in and to all sums of moneys which may now be or hereafter are from time to time standing to the credit of the Reinsurer Transaction Account and the Reinsurer Reserve Account, and any other bank account or book debt in which the Reinsurer may at any time acquire any right, title, interest or benefit and each debt represented by these, including all interest accrued and other moneys received in respect thereof other than (a) the Reinsurer Capital Account, (b) the Reinsurer Securities Accounts, (c) the Reinsurance Advances Account, (d) the Reinsurer General Account and (e) any Securities held in the Reinsurer Securities Account or held directly by the Reinsurer and which were acquired out of funds derived from the Reinsurer Reinsurance Security.
- (3) an assignment, by way of first fixed security for the payment or discharge of the Reinsurer Reinsurance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its rights, title, interest and benefit, existing now or in the future, in and to:
- (a) the Reinsurer Reinsurance Account Bank Agreement;
  - (b) the Reinsurer Investment Management and Custody Agreement other than the Finance Investment Management and Custody Rights (the Reinsurer Investment Management and Custody Agreement together with the Reinsurer Reinsurance Account Bank Agreement but excluding the Finance Investment Management and Custody Rights, being the “**Reinsurer Reinsurance Assigned Agreements**”),
- including, save to the extent of the Finance Investment Management and Custody Rights, without limitation:
- (i) the benefit of all representations, warranties, covenants, undertakings and indemnities under or in respect of the Reinsurer Reinsurance Assigned Agreements;
  - (ii) all of its rights to receive payment of any amounts which may become payable to it pursuant or with respect to such Reinsurer Reinsurance Assigned Agreements;
  - (iii) all payments received by it pursuant to, or with respect to, such Reinsurer Reinsurance Assigned Agreements;
  - (iv) all of its rights to serve notices and/or make demands pursuant to such Reinsurer Reinsurance Assigned Agreements and/or to take such steps as are required to cause payments to become due and payable thereunder or with respect to such Reinsurer Reinsurance Assigned Agreements;
  - (v) all of its rights of action in respect of any breach of such Reinsurer Reinsurance Assigned Agreements; and
  - (vi) all of its rights to receive damages, compensation or obtain other relief in respect of, including in respect of any breach of or default in respect of such Reinsurer Reinsurance Assigned Agreements.
- (4) an assignment, by way of first fixed security for the payment or discharge of the Reinsurer Reinsurance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its rights, title, interest and benefit, existing now or in the future, in and to the Administration Reserved Rights under the Reinsurer Administration Agreement.



- (5) an assignment, by way of first fixed security for the payment or discharge of the Reinsurer Finance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its rights, title, interest and benefit, existing now or in the future, in and to the Finance Investment Management and Custody Rights under the Reinsurer Investment Management and Custody Agreement.
- (6) a charge, by way of first fixed security for the payment or discharge of the Reinsurer Reinsurance Secured Obligations, to and in favour of the Reinsurer Security Trustee of all of its right, title, interest and benefit, existing now or in the future, in and to all sums of moneys, securities, investments and other rights which may now be or hereafter are from time to time standing to the credit of the Reinsurer Capital Account, the Reinsurer Advances Account, the Reinsurer General Account and the Reinsurer Securities Accounts, including all interest accrued and other moneys received in respect thereof and any Securities held by the Reinsurer and which were acquired out of funds derived from the Reinsurer Reinsurance Security.
- (7) a charge to and in favour of the Reinsurer Security Trustee, by way of first floating charge for the payment or discharge of the Reinsurer Finance Secured Obligations owed to the Issuer, over the whole of its undertaking and all of its property and assets whatsoever and wheresoever situated, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as security, pursuant to the Reinsurer Deed of Charge.
- (8) a charge to and in favour of the Reinsurer Security Trustee, by way of second floating charge for the payment or discharge of the Reinsurer Reinsurance Secured Obligations, over the whole of its undertaking and all of its property and assets whatsoever and wheresoever situated, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as security, pursuant to the Reinsurer Deed of Charge.

The “**Reinsurer Finance Security**” is the security in respect of the Reinsurer Finance Secured Obligations referred to in paragraphs (1), (2), (5) and (7).

The “**Reinsurer Reinsurance Security**” is the security in respect of the Reinsurer Reinsurance Secured Obligations referred to in paragraphs (3), (4), (6) and (8).

### **Reinsurer Priority of Payment**

Where, prior to the service of a Reinsurer Enforcement Notice by or on behalf of the Issuer or New Barclays Life under a Reinsurer Secured Obligation, the Reinsurer is required to make a payment or a transfer of assets then:

- (a) in the case of a payment or transfer of assets to be made under the Reinsurance Agreement, the payment or transfer of assets shall be made by application in accordance with the terms of the Reinsurance Agreement of those assets of the Reinsurer which are secured in favour of the Reinsurer Reinsurance Secured Creditors and available to be applied in accordance with the provisions set out in the Reinsurer Deed of Charge;
- (b) in the case of a payment or transfer of assets to be made under the Reinsurer Investment Management and Custody Agreement, the payment or transfer of assets shall be made by application in accordance with the terms of the Reinsurer Investment Management and Custody Agreement of those assets of the Reinsurer which are secured in favour of the Reinsurer Reinsurance Secured Creditors and available to be applied in accordance with the provisions set out in the Reinsurer Deed of Charge; and
- (c) in the case of a payment by the Reinsurer under any other Transaction Document, the payment shall be made, where such payment falls due other than on a Loan Interest Payment Date, from the Reinsurer Reserve Account or, where such payment falls due on a Loan Interest Payment Date, from the Reinsurer Transaction Account in accordance with and subject to the priority set out below under “*Reinsurer Funding Priority of Payments*”.

**Reinsurer Funding Priority of Payments:** Notwithstanding the security interests created under the Reinsurer Deed of Charge, on each Loan Interest Payment Date which falls prior to the service on the Reinsurer of a Reinsurer Enforcement Notice by the Reinsurer Security Trustee, the Reinsurer Administrator as agent for the Reinsurer with the consent of the Reinsurance Security Trustee, shall instruct the Reinsurer Account Bank to withdraw the amount calculated as the amount of the Reinsurer Available Funds, standing to the credit of the Reinsurer Transaction Account (but only to

the extent that such withdrawal does not cause the Reinsurer Transaction Account to become overdrawn), to be applied by the Reinsurer in making the following payments in the following order of priority (in each case only if and to the extent that payments or provisions of a higher order of priority have been made in full):

- (a) first, the fees or other remuneration and indemnity payments (if any) which are then due to the Reinsurer Security Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Reinsurer Deed of Charge,
- (b) second, the fees or other remuneration and indemnity payments (if any) which are then due to the Reinsurer Account Bank and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified by the Reinsurer under the Reinsurer Funding Bank Account Agreement or the Reinsurer Reinsurance Bank Account Agreement;
- (c) third, the fees, costs, liabilities and expenses (together with interest on those amounts) of the Reinsurer Administrator for which it is entitled to be reimbursed or indemnified under the Reinsurer Administration Agreement;
- (d) fourth, *pro rata*, amounts which are then due to third parties under obligations incurred in the ordinary course of the Reinsurer's business (other than (i) amounts specifically provided for elsewhere in this order of priority or (ii) in respect of any obligations to any Reinsurer Reinsurance Secured Creditors), including any amounts due to the relevant taxation authority in respect of the Reinsurer's liability to Irish corporation tax (if any) (excluding Irish corporation tax on investment income and gains in respect of the amounts standing to the credit of the Reinsurer Capital Account or the Reinsurer General Account);
- (e) fifth, prior to a Reinsurer Enforcement Event occurring and the Reinsurer Security being enforced, to the extent that the balance standing to the credit of the Reinsurer Reserve Account is less than £100,000, an amount equal to such deficiency shall be transferred to the Reinsurer Reserve Account;
- (f) sixth, *pro rata* in or towards payment of (i) interest payable on that Loan Interest Payment Date and (ii) payment of any Reinsurer Gross-up Loan in respect thereof payable to the Issuer on such Loan Interest Payment Date;
- (g) seventh, *pro rata* in or towards payment of (i) any Deferred Interest under the Reinsurer Loan Agreement and (ii) any Reinsurer Gross-up Loan in respect thereof payable to the Issuer on such Loan Interest Payment Date;
- (h) eighth, in or towards payment of principal on the Reinsurer Loan on such Loan Interest Payment Date; and
- (i) ninth, to the Reinsurer.

Notwithstanding the security interests created by or pursuant to the Reinsurer Deed of Charge, on any Business Day other than a Loan Payment Date prior to the service of a Reinsurer Enforcement Notice, the Reinsurer Administrator, as agent for the Reinsurer, may instruct the Reinsurer Account Bank to withdraw moneys standing to the credit of the Reinsurer Reserve Account (but only to the extent that such withdrawal does not cause the Reinsurer Reserve Account to become overdrawn) to pay any amounts that are due and payable of a type described in subparagraph (d) above.

In addition, on each Loan Interest Payment Date the amount of the Reinsurer Profit Margin will be transferred from the Reinsurer Transaction Account to the Reinsurer Capital Account.

**Reinsurer Reserve Account:** The Reinsurer will establish a reserve account (the “**Reinsurer Reserve Account**”) initially in an amount equal to £100,000 out of its share capital or capital contribution. The amounts standing to the credit of the Reinsurer Reserve Account may, prior to the occurrence of an Enforcement Event, be used to pay certain costs and expenses payable other than on a Loan Interest Payment Date. To the extent amounts are paid out of the Reinsurer Reserve Account, it will be required to be credited on the next following Loan Interest Payment Date out of Reinsurer Available Funds, to the extent there are sufficient funds remaining after payment of higher ranking amounts in the Reinsurer Priority of Payments, with such amount as will result in the Reinsurer Reserve Account having a credit balance of £100,000.

## **Conflicts of Interest**

The Reinsurer Security Trustee shall have regard to the interests of the Reinsurer Secured Creditors as a whole as regards the exercise and performance of all powers, trusts, authorities, duties and discretions of the Reinsurer Security Trustee in respect of the Reinsurer Security under the Reinsurer Deed of Charge or the rights or benefits which are comprised in the Reinsurer Security (except where expressly provided otherwise). Without prejudice to the generality of the foregoing or to the obligations of the Reinsurer Administrator under the Reinsurer Administration Agreement, the Reinsurer Security Trustee shall be under no obligation to take any steps to call in or to enforce the rights of the Reinsurer under or in respect of the Reinsurer Charged Property and shall not be liable for any loss arising from any omissions on its part to take any such steps.

Notwithstanding the generality of preceding paragraph, the Reinsurer Security Trustee shall have regard only:

- (a) to the interests of the Reinsurer Finance Secured Creditors in respect of any matters relating to, arising out of or in connection with the Reinsurer Finance Secured Obligations and/or the Reinsurer Finance Security and/or the charged property which is the subject thereof provided that the Reinsurer Security Trustee shall only have regard to the interests of the Issuer in respect of the floating charge referred to in paragraph (7) under "Reinsurer Security" above; and
- (b) to the interest of the Issuer, if in the Reinsurer Security Trustee's opinion there is a conflict between the interests of (A) the Issuer and (B) any other Reinsurer Finance Secured Creditors; and
- (c) to the interests of the Reinsurer Reinsurance Secured Creditors in respect of any matters relating to, arising out of or in connection with the Reinsurer Reinsurance Secured Obligations and/or the Reinsurer Reinsurance Security and/or the charged property which is the subject thereof (provided that if such matter also falls with paragraph (a) above, paragraph (a) shall apply); and
- (d) to the interests of Barclays Life, if in the Reinsurer Security Trustee's opinion, there is a conflict between the interests of (A) the Reinsurer and (B) the other Reinsurer Secured Creditors.

So long as any of the Reinsurer Loan or obligations under the Reinsurance Agreement remain outstanding, the Reinsurer Security Trustee is not required to have regard to the interest of any Reinsurer Secured Creditor other than those specified in (a) and (c) above.

## **Upon Enforcement**

The Reinsurer Security Trustee shall, upon receipt of a copy of any Reinsurer Enforcement Notice from the Issuer, Barclays Life of an agent acting on behalf on either of them serve a copy thereof on the Reinsurer, the Reinsurer Secured Creditors, Ambac and the Rating Agencies.

With immediate effect from the date upon which the Reinsurer Security Trustee serves a Reinsurer Enforcement Notice on the Reinsurer, the whole of the Reinsurer Security shall become enforceable and:

- (a) no payments shall be made out of the Reinsurer Accounts without the prior written consent of the Reinsurer Security Trustee;
- (b) the Reinsurer Security Trustee shall be entitled to take such proceedings against the Reinsurer as it may think fit to enforce the Reinsurer Security pursuant to and in accordance with the provisions of the Reinsurer Deed of Charge and to enforce payment in respect of the Reinsurer Secured Obligations;
- (c) if not already crystallised any charge which is a floating charge, shall automatically crystallise; and
- (d) all proceeds of enforcement of the Reinsurer Security and any payment or distribution of any kind or character, whether in cash, securities or other property which is payable or deliverable upon or with respect to any of the Reinsurer Secured Obligations or any part thereof by the Reinsurer shall forthwith be paid or delivered directly to or to the order of the Reinsurer Security Trustee for application in accordance with the provisions set out in the Reinsurer Deed of Charge.

The Reinsurer Security Trustee shall only be bound to take any action with respect to enforcement of the Reinsurer Security if (i) it shall have been so directed in writing by the Issuer or Barclays Life; and (ii) it shall first have been indemnified and/or secured to its satisfaction.

The Reinsurer Security Trustee, by virtue of the interaction of the Reinsurer, the Issuer, and the Issuer Security arrangements shall, so long as Ambac is a Controlling Creditor, act solely at the direction of Ambac and thereafter, the Note Trustee.

**Limited Recourse:** Each of the Reinsurer Secured Creditors agrees that:

- (a) it will only have recourse in respect of any amount, claim or obligation due or owing to it by the Reinsurer under or in connection with the Reinsurer Deed of Charge or under any other Transaction Documents (the “Claims”) to the extent of available funds in accordance with the Reinsurer Priority of Payments described above after all prior ranking claims in respect of those funds have been paid or discharged in full in accordance with that Reinsurer Priority of Payments;
- (b) if, after enforcement of the security interests created by the Reinsurer Deed of Charge to the greatest extent practicable and the application of the proceeds of enforcement in accordance with the Reinsurer’s priority of payments following enforcement, any Claim remains outstanding, that Claim shall be extinguished and the Reinsurer Secured Creditor shall have no further claim against the Reinsurer.

**Non Petition:** Each of the Reinsurer Secured Creditors which is a party to the Reinsurer Deed of Charge agrees with each other and with the Reinsurer and the Reinsurer Security Trustee, that prior to the date which is two years and one day after the later of (i) the date on which the Reinsurer Security Trustee is satisfied that all the Reinsurer Secured Obligations and all other liabilities of the Reinsurer have been discharged in full and (ii) the payment in full of all amounts outstanding from the Reinsurer under the Reinsurer Loan Agreement and the other Transaction Documents, it shall not take or join in taking any corporate action or other steps or legal proceedings in respect of Insolvency Proceedings.

In addition, each such Reinsurer Secured Creditor agrees with the Reinsurer and the Reinsurer Security Trustee that:

- (a) only the Reinsurer Security Trustee (or any receiver where applicable) is entitled to enforce the Reinsurer Security;
- (b) unless otherwise provided for in the Reinsurer Deed of Charge, such Reinsurer Secured Creditor shall not take any steps to direct the Reinsurer Security Trustee to enforce the Reinsurer Security or any part of it nor take any steps or pursue any action whatsoever for the purpose of recovering any debts due or owing to it by the Reinsurer or in respect of insolvency proceedings in respect of the Reinsurer unless the Reinsurer Security Trustee having become bound to take any steps or proceedings to enforce the Reinsurer Security fails to do so within a reasonable period of becoming so bound and such failure is continuing (in which case each Reinsurer Secured Creditor shall be entitled to take any such steps and proceedings as it shall deem necessary provided that a Reinsurer Secured Creditor shall not take any steps or proceedings which would lead to the commencement of insolvency proceedings in respect of the Reinsurer); and
- (c) in the case of each such Reinsurer Secured Creditor, it shall not exercise or claim any right of set-off or combination (unless expressly provided for under the terms of the Transaction Documents) or lien in respect of any Reinsurer Secured Obligation owed to it or take any security interest or guarantee or other assurance therefore or take or do or omit to take or do any act or thing to prejudice or impair in any way the subordination contemplated by this Deed or any other Transaction Document.

This will not prevent any Reinsurer Secured Creditor from taking any steps against the Reinsurer which do not amount to the initiation or the threat of initiation of insolvency proceedings against the Reinsurer.

## **SUBORDINATED LOAN AGREEMENT**

**Subordinated Loan:** On or about the Closing Date, Barclays will enter into a subordinated loan agreement (the “Subordinated Loan Agreement”) with the Issuer and Ambac under which Barclays will agree to advance to the Issuer on the Closing Date £356,954,189 to enable the Issuer, together with the amount advanced to it under the Notes, to fund the provision of the Reinsurer Loan.

The initial advance made under the Subordinated Loan Agreement (the “**Initial Advance**”) will be made on the Closing Date and is a limited recourse obligation of the Issuer.

**Further Advances:** Barclays will be required from time to time to advance additional amounts (each a “**Further Advance**”) in respect of Breaches or Potential Breaches of the Deemed Warranties or following the determination of a dispute as to the calculation of the Relevant Regulatory Surplus Amount. Further Advances will be calculated and will be payable in accordance with the procedure outlined in “*Funding of Breaches*” or “*Process for determining Relevant Regulatory Surplus Amount*” as applicable.

Further Advances will form part of the Issuer Available Funds and will be applied in accordance with the Issuer Pre-Enforcement Priority of Payments or the Issuer Post Enforcement Priority of Payments, as applicable. The obligation to fund Further Advances may not be set off against any amounts payable by the Issuer to Barclays under the Subordinated Loan Agreement.

**Subordinated Loan Interest:** The period for which the Subordinated Loan is outstanding will be divided into successive periods which match the Loan Interest Periods in respect of the Reinsurer Loan Agreement (each a “**Loan Interest Period**”).

“**Loan Interest Payment Date**” means, in the relation to the Subordinated Loan, the Interest Payment Date falling in April of each year (or, if such day is not a Business Day, the immediately succeeding Business Day).

The rate of interest payable under the Subordinated Loan Agreement in respect of a Loan Interest Period shall be 7.1 per cent. per annum; and:

- (a) be calculated on the basis of actual days elapsed and a year comprising three hundred and sixty-five (365) days (or, if any portion of that Loan Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Loan Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) accrue from day to day from (and including) the first day of such Loan Interest Period to (but excluding) the last day thereof; and
- (c) be paid by the Issuer to Barclays on the relevant scheduled Loan Interest Payment Date only to the extent there are Issuer Available Funds remaining after paying or providing for payments with a higher ranking priority Issuer Priority of Payments.

**Deferred Subordinated Loan Interest:** To the extent that:

- (i) the aggregate of the interest payable by the Issuer on the Loan Interest Payment Date (ignoring the ability to defer payments) exceeds
- (ii) the amount of the Issuer Available Funds on such Loan Interest Payment Date after paying or providing for all amounts payable on such Loan Interest Payment Date with a higher ranking priority in the Issuer Priorities of Payments,

such excess shall be deferred and shall be due and payable (together with accrued interest thereon) by the Issuer on the next succeeding Loan Interest Payment Date to the extent that the Issuer Available Funds (as calculated in respect of such succeeding Loan Interest Payment Date) are sufficient to pay such amounts after providing for all amounts payable on such succeeding Loan Interest Payment Date with a higher ranking priority in the Issuer Priorities of Payments. To the extent that such deferred interest remains unpaid on such succeeding Loan Interest Payment Date, it shall carry interest and be added to the deferred interest determined in respect of such succeeding due Date, and so on in respect of subsequent Loan Interest Payment Dates.

**Withholding tax:** Interest will be paid subject to withholding or deduction for or on account of tax. To the extent any amount is required to be withheld or deducted for or on account of tax, the Issuer will not be required to pay any additional amounts.

**Repayment of the Initial Advance and Further Advances under the Subordinated Loan:** The Initial Advance and Further Advances under the Subordinated Loan will be repayable on each Loan Interest Payment Date to the extent there are Issuer Available Funds remaining after paying or providing for payments with a higher ranking priority in the Issuer Priorities of Payments. Accordingly, until such time as the Notes have been fully redeemed, no amount of the Initial Advance under the Subordinated Loan may be repaid. The Further Advances will be paid in priority to the Notes in certain circumstances in accordance with the Issuer Priorities of Payments.

**Subordinated Loan representations, warranties and covenants:** The Issuer will give representations and warranties to Barclays and Ambac and Barclays will give representations and warranties to the Issuer relating to certain matters, including with respect to the following matters: its due incorporation; its capacity, power and authority to enter into the Transaction Documents to which it is a party; that such Transaction Documents do not conflict with, *inter alia*, laws and are legal, valid, binding and enforceable (subject to customary exceptions); all filings and authorisations required have been made or obtained; payments are not subject to withholding taxes; the effectiveness of choice of English law.

**Recourse and non-petition:** Barclays will agree, *inter alia*, that its rights are limited recourse and that it will not to petition the courts or take any other step to wind up the Issuer in any jurisdiction, as described under “– *Issuer Deed of Charge*”.

### **Process for determining Relevant Regulatory Surplus Amount**

The Subordinated Loan Agreement sets out a procedure which will be adopted in determining the Relevant Regulatory Surplus Amount and in resolving disputes in relation to the amount determined by New Barclays Life. The timetable described below may be amended in future with the consent of Ambac (for so long as Ambac is a Controlling Creditor, and thereafter, the Note Trustee) (such consent not to be unreasonably withheld or delayed). References to Ambac in Steps 1 to 11 (inclusive) mean Ambac (for so long as Ambac is a Controlling Creditor) and, thereafter, the Issuer Security Trustee.

#### **Step 1**

New Barclays Life will undertake to calculate the Relevant Regulatory Surplus Amount in respect of each Calculation Period in accordance with all applicable Laws, accounting and actuarial practice and guidelines (under current law this would be derived from the statutory returns to the FSA). At the date of this Offering Circular, each Calculation Period is the period from (and including) 1 December in each calendar year (or, in the case of the calendar year in which the transaction closes, from and including 1 December 2002, to (and including) 30 November in the following calendar year.

#### **Step 2**

Barclays will procure that New Barclays Life will, in establishing its reserves for the purposes of calculating the Relevant Regulatory Surplus Amount do so in accordance with the Initial Reserving Basis or the then Permitted Reserving Basis (each as defined below) subject to any changes being a Permitted Change.

For these purposes:

“**Initial Reserving Basis**” means the reserving basis of the Policy Originators as at 30 November 2002 as used in compiling the statutory return to the Financial Services Authority for their respective financial years ending 30 November 2002.

“**Permitted Change**” means any change to the Initial Reserving Basis or the then Permitted Reserving Basis (as defined below) which New Barclays Life, acting reasonably, determines is appropriate to reflect:

- (a) a change in Law or regulation issued pursuant to the Financial Services and Markets Act 2000 or any other applicable Law;
- (b) a change to professional guidance issued by the Faculty of Actuaries (or any successor) or to the guidance issued by or on behalf of the FSA (or any successor Insurance Regulator);
- (c) a change in the actual or expected experience (including expected expense levels) in respect of the Policies from prior actual or expected experience of New Barclays Life (or any Policy Originator) or, if appropriate, of the life assurance industry or any sector thereof;
- (d) a change in generally accepted accounting principles (being UK GAAP or IAS, as applicable) or actuarial practice;
- (e) a change which the FSA or their advisors indicate to New Barclays Life on or after the Closing Date should be reflected in the regulatory returns submitted in respect of financial periods ending after the financial period ended on 30 November 2002; or

- (f) any other change which the board of directors of New Barclays Life or the appointed actuary, acting reasonably as the board or directors or appointed actuary of a prudent insurer (as defined in the Subordinated Loan Agreement (see “*Summary of Transaction Documents – Subordinated Loan Agreement – Deemed Warranties*”) would act, determines to be appropriate.

“**Permitted Reserving Basis**” means the Initial Reserving Basis as changed by any Permitted Change.

### Step 3

In the period from (and including) 15 October in each calendar year and ending on (and including) 15 November in the same year, New Barclays Life, acting through its appointed actuary (or, if there is no appointed actuary, a member of its board of directors or a person to whom the board of directors have delegated the function), will consult with Ambac (or its duly appointed actuarial consultants) with a view to discussing the proposed methodology to be adopted in determining the items and the value and/or amounts of such items to be taken into account in the calculation of the Relevant Regulatory Surplus Amount as determined for the purposes of the Reinsurance Agreement. The purpose of such discussions and consultation will be for New Barclays Life to provide information about its current thinking (which may be subject to change) with a view to assisting both parties when the Proposed Valuation Basis is to be determined and agreed. Ambac shall not be constrained or restricted in any way by such discussions or consultation when it provides its final comments under Step 7.

### Step 4

New Barclays Life will notify, *inter alios*, Ambac in writing by no later than 10 December (or the preceding Business Day) giving full details of the proposed valuation basis (the “**Proposed Valuation Basis**”).

The Proposed Valuation Basis will:

- (a) highlight changes proposed to be made compared to the previous year’s Final Valuation Basis (or, in the case of the year ending 30 November 2003, the regulatory returns filed in respect of the financial year ending 30 November 2002 by the Policy Originators);
- (b) include certain supporting details and documentation, which shall, without limitation, include (i) information, in form and detail as that customarily produced by the Policy Originators prior to the merger, in relation to the decrement and expense assumptions, mortality/morbidity, persistency, taxation and any other basic information contained in the documents referred to in the Deemed Covenant set out into paragraphs (a) and (b) of covenant 2.16 in “– *Deemed Covenants – Provision of Information*” below (the “**General Information**”), and (ii) in the event of any changes or events that have affected the emergence of surplus, such reasonable additional supporting information or details relating to such changes as will be taken into account in the formulation of the Proposed Valuation Basis (the “**Specific Information**”) and (iii) any other information which is readily available and that may reasonably be expected materially to affect the formulation of the Proposed Valuation Basis (“**Available Information**”); and
- (c) include an explanation of the rationale of the Proposed Valuation Basis.

New Barclays Life will use reasonable efforts to notify Ambac of any other changes (or events) in respect of the preceding Calculation Period which may have a material impact on the emergence of surplus.

### Step 5

Ambac shall use all reasonable endeavours, within 10 days of receipt of the Proposed Valuation Basis, to inform New Barclays Life of any aspects that Ambac considers may not be consistent with the determination of the Relevant Regulatory Surplus Amount and shall discuss issues identified with New Barclays Life. Ambac shall not be constrained or restricted in any way by such discussions or consultation when it provides its final comments under Step 7.

## Step 6

New Barclays Life shall make a preliminary calculation of the Relevant Regulatory Surplus Amount (the “**Preliminary Relevant Regulatory Surplus**”) no later than 14 January in the following calendar year and shall notify Ambac (and the Note Trustee) of such amount together with supporting documentation (consisting of the General Information, the Specific Information and the Available Information together with such additional information as Ambac (for so long as it is a Controlling Creditor) has reasonably required to assist in determining whether such calculation is justifiable) and an analysis of the results on or prior to such date (the “**Preliminary Notification Date**”).

## Step 7

Over the following 17 days, New Barclays Life and Ambac shall continue to consult with a view to resolving any matters in dispute.

To the extent that Ambac considers that New Barclays Life has not complied with its undertakings as described in Steps 1 and 2 or considers, following the consultation referred to in Steps 3 and 5, that the valuation basis is not justifiable or has not received sufficient information in respect of the determination of Preliminary Relevant Regulatory Surplus on the Preliminary Notification Date or subsequently to make an assessment, Ambac shall no later than 17 days following Preliminary Notification Date, notify New Barclays Life in writing (a “**Dispute Notice**”) either:

- (a) that it requires further information and what that information is, or
- (b) that it considers that one or more of the components of the valuation basis adopted in determining the Preliminary Relevant Regulatory Surplus is not justifiable and, so far as it is practicable to do so, the valuation basis which would be justifiable in respect thereof, the reasons why the valuation basis used by New Barclays Life in determining Preliminary Relevant Regulatory Surplus is not justifiable, the reason why Ambac’s proposed valuation basis (if applicable) is justifiable and the amount it estimates would be the Relevant Regulatory Surplus Amount if the valuation basis it considers justifiable were adopted (the “**Estimated Relevant Regulatory Surplus**”).

## Step 8

As soon as reasonably practicable following receipt of the Dispute Notice, New Barclays Life shall prepare its Form 58 on the basis that it considers appropriate and the Relevant Regulatory Surplus Amount so calculated on this basis shall be the “**Disputed Relevant Regulatory Surplus**”.

If New Barclays Life determines that the Estimated Relevant Regulatory Surplus is the Relevant Regulatory Surplus Amount and such amount is the basis on which the relevant Form 58 is filed, the Dispute Notice shall cease to be effective.

If New Barclays Life determines, following a filing of the relevant Form 58, that the Estimated Relevant Regulatory Surplus is the Relevant Regulatory Surplus Amount required to be paid under the Reinsurance Agreement then Barclays will advance a Further Advance on the Loan Interest Payment Date next following such determination (save to the extent required to be advanced on an earlier date as described in Step 10 below) in an amount equal to the excess of the Estimated Relevant Regulatory Surplus over the Disputed Relevant Regulatory Surplus to the extent that New Barclays Life has not made such adjustments to the valuation basis for the next succeeding Calculation Period as are necessary to ensure that the Relevant Regulatory Surplus Amount in respect of such Calculation Period will be increased by such excess.

If New Barclays Life does not determine that the Estimated Relevant Regulatory Surplus is the Relevant Regulatory Surplus, and if agreement is not reached following discussions between New Barclays Life and Ambac over the 5 days following 31 January and the excess of the Estimated Relevant Regulatory Surplus Amount over the Disputed Relevant Regulatory Surplus either (i) exceeds the Materiality Threshold in respect of that year or (ii) the cumulative amount in respect of prior years which have not been referred to an Independent Actuary or in respect of which an amount has not been paid either by way of Further Advance or by adjustment to the valuation basis as described above, when added to the amount in respect of that year, exceeds the Cumulative Materiality Threshold, the matter shall be referred to the Independent Actuary.

“**Materiality Threshold**” means in any year £20 million.

“**Cumulative Materiality Threshold**” means £30 million.



## Step 9

The Independent Actuary (as defined below) shall determine which valuation basis issues in the Dispute Notice(s) which remain disputed should be used and shall determine the effect that, in aggregate, its determination of the proper valuation basis in respect of the disputed matters would have on the Relevant Regulatory Surplus Amount (including its determination of the Relevant Regulatory Surplus Amount taking account of such matters (such amount being the “**Independent Relevant Regulatory Surplus**”). The Independent Actuary shall be requested to make its determination, if practicable, no later than 19 February (or if such day is not a Business Day the immediately preceding Business Day) in such year (the “**RS Determination Date**”).

The “**Independent Actuary**” will be a person, acting as expert and not as arbitrator, who is agreed between Ambac and Barclays or, failing agreement, such person as may be nominated by the then President of the Faculty of Actuaries (or any successor body).

The costs of the Independent Actuary will be a transaction expense unless the Independent Actuary determines that the matters disputed by Ambac are frivolous or vexatious.

## Step 10

On the “**Surplus Notification Date**” in each calendar year (being the day falling three months after the end of the relevant Calculation Period or such earlier day as New Barclays Life shall specify) (or, if such day is not a Business Day, the succeeding Business Day), New Barclays Life shall inform Ambac, the Note Trustee and Barclays of the Relevant Regulatory Surplus Amount calculated using the basis for the filed Form 58. To the extent that the amount of Disputed Relevant Regulatory Surplus is less than the Independent Relevant Regulatory Surplus, Barclays will advance a Further Advance on the next Loan Interest Payment Date in an amount equal to the excess of the Independent Relevant Regulatory Surplus over the Disputed Relevant Regulatory Surplus.

In the event that the Independent Actuary fails to make its determination of Independent Relevant Regulatory Surplus on or before the RS Determination Date, New Barclays Life will file its Regulatory Return on the basis that the amount in the Regulatory Surplus Line (calculated as described under and after taking account of adjustments required to be made to such amount to produce the Relevant Regulatory Surplus Amount described under “– *Reinsurance Agreement – Declaration of Relevant Regulatory Surplus Amount*”) shall correspond to the amount determined as Disputed Relevant Regulatory Surplus (or such other amount as may be agreed, which amount shall then be deemed to be the Disputed Relevant Regulatory Surplus). To the extent that the determination of Independent Relevant Regulatory Surplus made by the Independent Actuary after the RS Determination Date exceeds the amount of Disputed Relevant Regulatory Surplus:

- (a) New Barclays Life may accept such determination of Independent Relevant Regulatory Surplus and make such adjustments to the valuation basis for the next succeeding Calculation Period as are necessary to ensure that the Relevant Regulatory Surplus Amount in respect of such Calculation Period will be increased by an amount equal to the excess of the Independent Relevant Regulatory Surplus over the Disputed Relevant Regulatory Surplus (for example effectively by releasing any amounts retained in New Barclays Life as a result of the unjustifiable valuation basis); or
- (b) New Barclays Life may elect not to accept the determination of Independent Relevant Regulatory Surplus in which case Barclays will advance a Further Advance on the next following Loan Interest Payment Date in an amount equal to the excess of the Independent Relevant Regulatory Surplus over the Disputed Relevant Regulatory Surplus; or
- (c) New Barclays Life may make an election partially under (a) and partially under (b).

If, however, Barclays is already required to make a Further Advance in respect of the next Loan Interest Payment Date and the Issuer Available Funds would be insufficient, after utilisation of all amounts available under the Liquidity Facility, to make payments of interest on the Notes on an Interest Payment Date prior to such Loan Interest Payment Date, Barclays will, on such Interest Payment Date, advance up to an amount equal to the lower of the Further Advance already required and the amount sufficient to enable interest on the Notes to be paid. The total size of the Further Advance required to be made in respect of the next Loan Interest Payment Date shall be reduced accordingly.

Note interest will be made by way of Further Advance to the Issuer on the next Interest Payment Date and so on until the next Reinsurer Loan Payment Date.

## Step 11

In the event that Barclays has advanced a Further Advance under the Subordinated Loan Agreement in order to compensate the Issuer for a reduction in the Relevant Regulatory Surplus Amount in any year as a result of reserves having been increased which are determined by the Independent Actuary not to have been justifiable, Barclays will have the right to require that, to the extent that the Relevant Regulatory Surplus Amount is increased in any subsequent year as a result of a reduction in such unjustifiable reserves (such amount being an “**Excess Reserve Amount**”), the interest and principal in respect of the Further Advance be paid in priority to the payments of principal on the Notes out of the increase in the Relevant Regulatory Surplus Amount as a “**Refundable Amount**”.

In the event that any matter disputed under Steps 7 to 10 above has an effect in subsequent years, Barclays will be required to make Further Advances available under the Subordinated Loan to eliminate such effects in such subsequent years unless New Barclays Life has instead adjusted the Proposed Valuation Basis to reflect the determination of the Independent Actuary.

Ambac’s actuarial consulting costs up to £20,000 per annum will be reimbursed to it by the Issuer where there is any unpaid Expected Amortisation Amount.

## Deemed Warranties

To the extent that any of the Deemed Representations or Deemed Covenants below (together the “**Deemed Warranties**”) is incorrect or has been breached, a “**Breach**” will occur. A Breach of the Deemed Warranties will give rise to the consequences described in *Funding of Breaches* below. References to Ambac in any of the Deemed Warranties mean Ambac (for so long as Ambac is a Controlling Creditor) and, thereafter the Issuer Security Trustee.

### 1. Deemed Representations

#### *Origination Procedures*

1.1 To the extent that the Policies were not originated in accordance with procedures (including underwriting standards) and on terms which were consistent with:

- (a) those which would, to the reasonable knowledge and belief of the Policy Originators, have been applied by a prudent insurer carrying on a business similar to that of the Policy Originators at the relevant time when each Policy was originated; and
- (b) the procedures and terms required, from time to time, by third party providers of reinsurance to the Policy Originators in respect of all or part of the risks under the Policies reinsured,

the departure from such procedures described in paragraph 1.1 (a) or (b) above has not, either individually or in aggregate, had a Material Adverse Effect on New Barclays Life.

“**Material Adverse Effect**” means, in respect of a Breach relating to Barclays Life, an effect which would reduce the Relevant Regulatory Surplus Amount by £1 million or more and, in respect of a Breach relating to the Reinsurer, a material adverse effect on the Reinsurer’s ability to perform the obligations expressed to be imposed on it under the Transaction Documents or any of them.

#### *Compliance with Laws/Regulations*

1.2 In the last 3 years, neither of the Policy Originators nor any of their respective directors, officers or agents defaulted under or failed to comply with any law, statute, regulation, treaty, directive, bye-law, rule, order, delegated legislation or any official request of any governmental authority, whether local, regional, national or supranational (including rules and regulations relating to the conduct of business of any regulatory body with whose rules a Policy Originator was required to comply), in each case, as in force from time to time and interpreted at the relevant time (“**Law**”), (excluding any defaults which might give rise to a Mis-selling Liability) which, in each case, would, individually or together have a Material Adverse Effect on New Barclays Life.

1.3 There are no legal, arbitration or administration proceedings (including any which are pending or threatened to the knowledge of Barclays or either of the Policy Originators) involving either of the Policy Originators which, either individually or in aggregate, would have a Material Adverse Effect on New Barclays Life.

- 1.4 New Barclays Life and the Reinsurer have, as at the Closing Date, all authorisations, approvals, licences, permissions and consents (“**Licences**”) under any applicable Laws in force (including without limiting the same, the Financial Services and Markets Act 2000) to carry on business of the class in which each Policy falls and otherwise to carry on the business it proposes to carry on pursuant to the Transaction Documents.
- 1.5 Each Policy Originator had, at all relevant times, all Licences under all applicable Laws at the relevant time in force to carry on business of the class in which each Policy falls or which it otherwise carried out.
- 1.6 No outstanding complaints, warnings or notices (excluding any complaints, warnings or notices which if upheld would give rise to a Mis-selling Liability) have been received by Barclays or any Policy Originator or (to the reasonable knowledge and belief of Barclays or the Policy Originators) is threatened against a Policy Originator which would, either individually or in aggregate, have a Material Adverse Effect on New Barclays Life and there are no current, pending or (to the reasonable knowledge and belief of Barclays or the Policy Originators) threatened investigations or enforcement proceedings (excluding in relation to any matters which might give rise to a Mis-selling Liability) by the Insurance Regulator, the Inland Revenue or the Inland Revenue Pension Schemes Office or any other regulator or tax authority into any of the activities of either Policy Originator which, either individually or in aggregate, would have a Material Adverse Effect.
- 1.7 In the last 3 years, save for correspondence (i) relating to the implementation of the Scheme (other than correspondence indicating the outstanding concerns of the Insurance Regulator) (ii) in respect of the investigation of any matters which may give rise to a Mis-selling Liability and (iii) by way of Consultation Paper or any other generic regulatory publication, no written communication has been received by either of the Policy Originators from the Insurance Regulator which:
  - (a) alleges a failure, or possible failure, to comply with a Law or a Licence;
  - (b) requires any alteration in the way in which New Barclays Life proposes to carry out its business in accordance with the terms of the Transaction Documents following completion of the Scheme Transfer;
  - (c) requires either Policy Originator to provide information or documents to the Insurance Regulator under Section 165 of FSMA;
  - (d) requires New Barclays Life to provide the Insurance Regulator with a Report under Section 166 of FSMA;
  - (e) might lead to an increase of New Barclays Life’s liabilities or a reduction in the value of its assets as shown in the Base Case;
  - (f) requests or requires the provisions of additional capital for either of the Policy Originators but which has not been complied with; or
  - (g) raises any other matters which may have an adverse effect on New Barclays Life.

#### *Compliance with Agreements*

- 1.8 New Barclays Life is not in breach of or in default under any agreement or arrangement to which it is a party or which is binding on it (excluding any defaults which might give rise to a Mis-selling Liability) or on any of its assets which default would have a Material Adverse Effect on it.

#### *Regulatory Returns*

- 1.9 To the extent that the following were incorrect it would not have a Material Adverse Effect:

In the last 3 years, all returns required under Part I of Chapter 9 of IPRU(INS), the Insurance Companies (Accounts and Statements) Regulations 1996 and Chapter 16 of SUP (the “**Returns**”) to be provided to the Insurance Regulator in accordance with the Financial Services and Markets Act 2000 were prepared in accordance with all applicable regulations and requirements under FSMA 2000 (including, without limitation, those contained in the Insurance Companies (Accounts and Statements) Regulations 1996, Part I of Chapter 9 of IPRU(INS) and Chapter 16 of SUP) and conform to the practices recommended or required by the Institute of Actuaries at the time prepared.

### *Accounts*

1.10 To the extent that the following were incorrect it would not have a Material Adverse Effect:

In the last 3 years, the audited accounts (the “**Accounts**”) of each of the Policy Originators:

- (a) were properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies and also in accordance with all other accounting practices applicable to insurance companies including FSMA 2000; and
- (b) were prepared using accounting policies which were in each case in accordance with United Kingdom SSAPs and the relevant FRSs to the extent appropriate to insurance companies and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

### *No Material Adverse Change*

1.11 Save as disclosed in the section entitled “BLAC, WLAC and New Barclays Life” in the Offering Circular, since 30 November 2002, there has been (i) no material adverse change in the financial position or prospects of New Barclays Life and (ii) no significant change in the financial or trading position of New Barclays Life, in each case comparing it to the business of BLAC and WLAC at 30 November 2002.

### *Records*

1.12 To the extent that the following were incorrect it would not have a Material Adverse Effect:

New Barclays Life has, or on the Closing Date, will have, in respect of the Policies, recorded on its, or its sub-contractors, computer systems an accurate record comprised of such information relating to the Policies as is necessary to enable New Barclays Life to fulfil its contractual obligations under such Policies, properly to administer such Policies and to calculate the Relevant Regulatory Surplus Amount appropriately.

### *Policies*

1.13 To the extent that the following were incorrect it would not have a Material Adverse Effect:

Each Policy is a valid and binding obligation of the parties thereto enforceable according to its terms (subject, in the event of insolvency or analogous proceedings, to applicable laws relating to creditors’ rights (including policyholders’ rights under their policy terms) and to limitations on the availability of remedies as a result of equitable considerations).

1.14 Neither of the Policy Originators has at any time written and is not otherwise liable in respect of Policies which give the holder:

- (a) a right to elect to convert a cash benefit into an annuity at a guaranteed rate; or
- (b) a right to elect to convert an annuity into a cash sum at a guaranteed rate.

1.15 None of the Policies is a Participating Policy.

“**Participating Policy**” means a “with profits policy” as defined in Chapter 11, Part 1 of IPRU (INS).

1.16 To the extent that the following were incorrect it would not have a Material Adverse Effect:

At all relevant times in respect of each of the unit-linked funds of each of the Policy Originators, whether such funds are now open or closed for new business, all prices of units for such funds have been calculated in accordance with the terms of the relevant Policy and/or relevant scheme particulars and the Policy Originators standard accounting and actuarial valuation formulae applicable from time to time, and where such unit prices have been published or represented to any of the policyholders of the Policy Originators such published prices have, save for unit pricing errors which have been corrected and for which policyholders have been compensated, accurately reflected the true value of the applicable unit prices at that time.

### *Regulatory Capital*

1.17 The aggregate of the amount of the liabilities under long term business contracts, assessed in accordance with Chapter 3 IPRU (INS), together with the amount of any other liabilities of New Barclays Life as at the Closing Date was less than the value of the assets of New Barclays Life (calculated in accordance with Chapter 4 of, and Appendix 4.2 to, IPRU (INS)) plus two times the Required Minimum Margin determined as at the Closing Date.

“**Required Minimum Margin**” means, at any time, the “required minimum margin” as determined in accordance with the methodology set out in Chapter 2 of IPRU (INS) on the Closing Date.

1.18 New Barclays Life has no subsidiaries or subsidiary undertakings or other holdings other than BLAC and the Reinsurer which would count as group undertakings for the purposes of IPRU (INS).

1.19 New Barclays Life is not a party to any reinsurance contract which will remain outstanding after the Scheme Date other than those set out in the Returns prepared and filed in respect of the financial year of each of the Policy Originators ended on 30 November 2002 and the Reinsurance Agreement.

1.20 To the extent that the following were incorrect it would not have a Material Adverse Effect:

Neither of the Policy Originators has actively marketed Policies outside the United Kingdom.

### *Model/Base Case*

1.21 (a) The model used by New Barclays Life to calculate the Base Case and the Stress Cases (the “**Original Model**”) accurately projected, on the basis of the Actual Data, Representative Data and Base Case Assumptions or, as the case may be, the relevant Stress Case Assumptions, future emerging surplus in respect of the Policies based on current Law.

(b) The Actual Data (i) was complete and accurate as at 30 November 2002, (ii) was an accurate extraction of the data relating to the Policies in-force as at such date which was used for the purpose of modelling emerging surplus and (iii) was properly and accurately input into the Original Model.

(c) (i) The Model Policies were an accurate representation of the Policies of BLAC and WLAC as at 31 December 2002 and were accurately represented in the Representative Data.

(ii) The Representative Data was properly and accurately input into the Original Model.

(d) (i) The Base Case Assumptions relating to discontinuance (being those relating to mortality, morbidity, persistency and paid up rates) represent a reasonable estimate, as at the Base Case Date (adjusted, in the case of persistency only, to the extent considered appropriate by New Barclays Life, to take into account actual experience of New Barclays Life and BLAC Limited to 30 June 2003), of New Barclays Life made in accordance with actuarial practice which takes account of the historic experience of the Policy Originators and, in the case of mortality and morbidity, of information relating to the life insurance industry in respect of comparable business generally available to New Barclays Life as at the Base Case Date.

(ii) The Base Case Assumption set relating to investment returns, expense inflation and the risk free investment rate, together (being those related to the long term estimated investment returns by asset class, the future investment return assumption and long term asset allocation assumption) represent a reasonable long term estimate for the projection of the Relevant Regulatory Surplus Amounts, as at the Base Case Date, of New Barclays Life having regard to conditions at the time as at which the determination was made and made in accordance with actuarial practice.

- (iii) The Base Case Assumptions relating to expenses represent a reasonable estimate of the expenses of New Barclays Life (I) on the basis that the Outsourcing Agreement remains in effect and the costs thereunder are at the rates in effect as at the Base Case Date increased to reflect the long term expense inflation assumption, (II) on the basis that the Actuarial Services Agreement continues in force and effect at the rates specified therein increased annually by reference to the long term expense inflation assumption, (III) on the basis that the Reinsurer Investment Management and Custodian Agreement continues to be in force and effect at the rates applicable thereto increased annually by reference to the long term investment growth rate assumption, (IV) taking account of the risks which are expected to be funded through Further Advances or Capital Injections, (V) taking account of the potential effects of the assumed persistency rates on policies and (VI) taking account of such factors as New Barclays Life considered to be relevant as at the Base Case Date.
  - (iv) The Base Case Assumption produces a result relating to taxation which is no worse than the result which would be produced using the Tax Assumptions.
  - (v) The other Base Case Assumptions not referred to above (including those relating to reserving), each as described in this Offering Circular and in each case as at the Base Case Date, represent a reasonable estimate based on current Law and in accordance with actuarial practice as at the Base Case Date.
- (e) The Deemed Warranties in (a), (b) and (c) shall be deemed not to have been breached unless, having accurately input the Actual Data (or, in the case of a breach of representation (b)(i), (b)(ii) or (c)(i), the actual data which should have been used so that such warranty or warranties was or, as the case may be, were true) and the Representative Data (or, in the case of a breach of the representation in (b)(i), (b)(ii) or (c)(i), representative policies derived from the actual data which should have been used to construct such representative policies so that such warranty or warranties was or, as the case may be, were true) through the Agreed Model using each of the Base Case Assumptions and the Stress Case Assumptions, the aggregate amount of the Relevant Regulatory Surplus Amounts projected by the Original Model exceeds the aggregate amount of the Relevant Regulatory Surplus Amounts projected by the Agreed Model for the Base Case Assumption or at least one corresponding Stress Case Assumption, as the case may be, by more than 10% (each such being a “**Material Variance**”).
- (f) If there is a Material Variance, New Barclays Life, Barclays and Ambac shall seek to agree amongst themselves whether the Original Model had a greater than 10% overstatement in projecting the aggregate of the Relevant Regulatory Surplus Amounts and, in determining this, the parties shall take into account both the number and the size of variations between the aggregate amount of the Relevant Regulatory Surplus Amounts projected by the Agreed Model for each Stress Case Assumption and the Base Case Assumption and the aggregate amount of the Relevant Regulatory Surplus Amounts projected by the Original Model for the corresponding Stress Case Assumptions or Base Case Assumption but the analysis shall be qualitative and not merely an average of the variances.
- If the parties are unable to determine whether the Original Model had a greater than 10 per cent. overstatement in projecting the aggregate of the Relevant Regulatory Surplus Amount, the matter shall be referred to the Independent Actuary who shall determine the matter taking into account the above matters.
- (g) There have been no events or circumstances arising following the Base Case Date and no information has become available to New Barclays Life following the Base Case Date which, to the extent New Barclays Life has not taken it into account in respect of the Base Case Assumptions as at 30 June 2003, would result in a material adverse effect to the Base Case taken as a whole over the period to the Final Maturity Date of the Notes.

- (h) Determination of whether there has been a Breach of this Deemed Warranty may occur once only and only at any time following Ambac having made, having to make, or in relation to the Final Maturity Date, being projected to have to make, a payment under the Ambac Financial Guarantee.

For these purposes:

“**Actual Data**” means the data from Policies either (i) input directly into the Original Model for the purposes of calculating the Base Case or (ii) used for the purposes of constructing Model Policies.

“**Agreed Model**” means a model which is capable of calculating a projection of surplus with effect from the Base Case Date for each Calculation Period by having input into it the Actual Data, Representative Data and each of the Stress Case Assumptions and the Base Case Assumptions, which model shall be agreed between Ambac, Barclays and New Barclays Life, provided that if the parties cannot agree on a model, the matter in the second sub-paragraph of 1.21(f) above shall be resolved in accordance with the disputes provisions in the Subordinated Loan Agreement. The costs of constructing the Agreed Model will be borne by the Transaction up to a limit of £250,000 and only if the Investor Report shows that the Notes will remain outstanding on the Final Maturity Date or the Notes have remained outstanding on the Final Maturity Date

“**Assumptions**” means the Base Case Assumptions and each of the Stress Case Assumptions;

“**Base Case Assumptions**” means the assumptions relating to, *inter alia*, mortality, morbidity, early termination rates, paid up rates, long term future investment returns, inflation, long term asset allocation, expenses, taxation and reserving set out in the Disc and “**Base Case**” shall be construed accordingly;

“**Disc**” means the computer disc which contains the Actual Data, Representative Data, Model Policies and Assumptions referred to herein and a copy of which has been lodged with each of Ambac, New Barclays Life and Barclays;

“**Model Policies**” means those policies in respect of which Actual Data was not input into the Original Model but in respect of which assumed policies representative of the actual policies were constructed with such model policies being used to determine future emerging surplus;

“**Representative Data**” means the data derived from the Model Policies and input into the Original Model for the purposes of calculating the Base Case;

“**Stress Case Assumptions**” means the assumptions relating to *inter alia*, mortality, morbidity, persistency rates, paid up rates, long term future investment returns, inflation, long term asset allocation, expenses, taxation and reserving set out in the Disc;

“**Tax Assumptions**” means the assumptions set out in Deemed Warranties 2.27 to 2.29.

A Breach of this warranty shall result in the Subordinated Loan Provider making a Further Advance on the Final Maturity Date (or, if later, immediately upon any dispute in relation to this Deemed Warranty being resolved) in an amount equal to the outstanding principal amount of the Notes and any interest thereon which has been paid by Ambac.

## 2. Deemed Covenants

### *Persistency*

- 2.1 Save to the extent required by Law, Barclays shall maintain a compensation structure for any Barclays Group sales force operating from time to time and for independent financial advisors which will not provide incentives which are likely to encourage such sales forces or independent financial advisors to procure that existing policyholders cancel Policies and take out new policies with a different insurer.

### *Servicing Contracts*

- 2.2 New Barclays Life shall comply with its obligations contained in the Servicing Contracts and will enforce the obligations of each Service Provider under the Servicing Contracts save where:
- (a) a prudent insurer would exercise its rights not to enforce or to waive non-compliance with such obligations; or
  - (b) the exercise of such right or waiver by New Barclays Life would not have a Material Adverse Effect on New Barclays Life,

provided that, if New Barclays Life decides to exercise its rights under the Servicing Contracts not to enforce or waives non-compliance with such obligations in accordance with (a) above, New Barclays Life shall consult with Ambac and discuss issues identified by Ambac provided that New Barclays Life shall not be constrained or restricted in any way (whether as a result of a failure to consult, as a result of comments made by Ambac or otherwise) from taking action or omitting to take action in accordance with the provisions set out in this paragraph.

“**Service Provider**” means a party (other than a Policy Originator) to a Servicing Contract.

2.3 New Barclays Life shall promptly notify the Issuer Security Trustee and Ambac (for so long as it is a Controlling Creditor) of:

- (a) any termination or breach of any Servicing Contracts which has a Material Adverse Effect;
- (b) any Servicing Contract otherwise ceasing to be in full force and effect;
- (c) any amendment made to any Servicing Contracts that would be reasonably likely to have a Material Adverse Effect on New Barclays Life or the Reinsurer; or
- (d) the entry into by New Barclays Life of a new or replacement Servicing Contract.

2.4 New Barclays Life will not enter into Servicing Contracts with any Barclays Group entity unless (a) such Servicing Contract is entered into on arms-length terms or better or (b) is an arrangement described in paragraph 2.25(c)(i) or (ii), or (c) to the extent that the Issuer Security Trustee determines that entering into any such arrangement or contract has or is likely to have a Material Adverse Effect, the consent of Ambac (for so long as it is a Controlling Creditor) is obtained (such consent not to be unreasonably withheld or delayed).

“**Servicing Contracts**” means:

- (a) the Reinsurance Agreement;
- (b) the Outsourcing Agreement;
- (c) the New Barclays Life Investment Management and Custody Agreement;
- (d) the Actuarial Services Outsourcing Agreement; and
- (e) any other contracts where the aggregate consideration to be provided under the contract by New Barclays Life exceeds £1 million per annum and which relates to the management or servicing of the Policies.

“**Arm’s-length terms**” means a transaction between two or more entities each of which has separate and distinct interest and each of which have agreed terms with a mind to their own respective interest in a normal commercial manner unaffected by any special relationship between them.

#### *Back-up Servicer*

2.5 Barclays shall:

- (a) act as back-up servicer in accordance with the terms of the Back-up Servicing Agreement; and
- (b) procure that the services to be performed by the actuarial consultants (or any successor) under the Actuarial Services Outsourcing Agreement are performed by or on behalf of New Barclays Life if the Actuarial Services Outsourcing Agreement is terminated.

#### *Admissible Assets*

2.6 New Barclays Life shall not pursue a strategy of deliberately investing in assets which are not Admissible Assets with the principal purpose of suppressing or delaying the emergence of the Relevant Regulatory Surplus Amount.

“**Admissible Assets**” means assets which can be brought into account in accordance with Chapter 4 of IPRU (INS) (including, for the avoidance of doubt, Appendix 4.2 thereof) or assets to be invested in the linked funds of New Barclays Life which are “permitted links” in accordance with IPRU (INS).

#### *New Business*

2.7 New Barclays Life shall not accept applications for new business (including new contracts of insurance or pension policies) provided that New Barclays Life may:

- (a) permit new joiners to any existing group pension or life assurance schemes;



- (b) permit existing Policyholders to enhance existing Policies;
  - (c) permit existing Policyholders to reinvest in a new Policy upon the termination (in whole or part) of any existing Policy;
  - (d) permit existing Policyholders to reinvest in a new Policy following the resolution of any complaint relating to the circumstances surrounding the sale of an existing Policy to such existing Policyholder; or
  - (e) permit existing Policyholders to invest in new Policies following the exercise of any rights granted pursuant to an existing Policy (including writing annuities from pensions Policies coming into payment).
- 2.8 New Barclays Life shall not acquire any further contracts of insurance or pension policies (whether pursuant to a scheme under Part VII and Schedule 12 of the Financial Services and Markets Act 2000 or otherwise) other than in accordance with the Scheme.
- 2.9 New Barclays Life shall not acquire any company other than the Reinsurer or BLAC as a subsidiary or subsidiary undertaking or any holding which would amount to a group undertaking pursuant to IPRU (INS).

#### *Reinsurance*

- 2.10 New Barclays Life shall be permitted to enter into contracts of reinsurance additional to policies of reinsurance already subsisting (including such policies as renewed) in respect of the Policies only with the prior written consent of a Controlling Creditor (such consent not to be unreasonably withheld or delayed).

#### *Ex Gratia Payments*

- 2.11 New Barclays Life shall not make ex gratia payments (excluding those made in connection with a Mis-selling Liability) which exceed an aggregate amount of £10m in each Calculation Period.

#### *Prudent Insurer*

- 2.12 New Barclays Life shall carry out and otherwise perform its rights and obligations in respect of the Policies as would a prudent insurer carrying on a business similar to that of New Barclays Life and otherwise administer the Policies and its assets in such a manner as would a prudent insurer carrying on a business similar to that of New Barclays Life.

A “**prudent insurer**” is an insurer who takes into account (i) the interests (including, without limitation, reasonable expectations) of and its duties and responsibilities (including, without limitation, under Laws) to Policyholders, (ii) the reputational and other issues (including, without limitation, its financial strength) in respect of itself and the Barclays Group and (iii) the interests of its creditors (including, without limitation, the Reinsurer’s interest in optimising the embedded value of New Barclays Life’s Policies (including, without limitation, by managing its lapse rates, charges and expenses appropriately)).

#### *Compliance with Laws/Regulations*

- 2.13 New Barclays Life shall not and none of its directors, officers or agents shall, default under or fail to comply with any law, statute, regulation, treaty, directive, bye-law, rule, order, delegated legislation or any official request of any governmental authority, whether local, regional, national or supranational (including rules and regulations relating to the conduct of business of any regulatory body with whose rules New Barclays Life or its directors, officers or agents are required to comply), in each case, as in force from time to time and interpreted at the relevant time which default or failure would have a Material Adverse Effect on New Barclays Life.
- 2.14 New Barclays Life shall maintain all Licences under any applicable Laws in force (including without limiting the same, the Financial Services and Markets Act 2000) to carry on business of the class in which each Policy falls and otherwise to carry on the business it proposes to carry on pursuant to the Transaction Documents.

### *Records/Computer Systems*

- 2.15 New Barclays Life shall record, or procure that there is recorded, on its or its sub contractors computer systems an accurate record comprised of such information relating to the Policies as is necessary to enable New Barclays Life to fulfil its contractual obligations under such Policies and properly administer such Policies and to enable it to calculate the Relevant Regulatory Surplus Amount appropriately.
- 2.16 New Barclays Life shall maintain, or procure that there are maintained, such computer and other systems and such software licences or enter into such other appropriate arrangements as are necessary to enable it to maintain an accurate record comprised of such information relating to the Policies as is necessary to enable New Barclays Life to fulfil its contractual obligations under such Policies and to enable it to calculate the Relevant Regulatory Surplus Amount appropriately.

### *Provision of Information*

- 2.17 Save as prohibited by Law, New Barclays Life shall permit Ambac (or, as applicable, the Note Trustee), the Independent Actuary and the Reinsurer (and their duly appointed agents) access to such information and records as are reasonably required to enable each recipient of information (each a “**Recipient**”) to perform its functions or review compliance by other parties of their obligations under the Transaction Documents and the reasonableness of the Relevant Regulatory Surplus Amount, including:
- (a) a copy of the annual actuarial report to the board and any supporting information relating to such actuarial report;
  - (b) a copy of the annual lapse report; and
  - (c) access to the annual computer download of Policy information and performance.

To the extent that New Barclays Life is prohibited from providing access to such information, New Barclays Life shall, promptly following a reasonable request, use all reasonable endeavours to provide the information in a form which is not prohibited by Law (including, where necessary, without disclosing the policyholder), to enable such Recipient to perform its functions or review compliance by other parties of their obligations under the Transaction Documents and the reasonableness of the Relevant Regulatory Surplus Amount.

- 2.18 New Barclays Life shall use all reasonable endeavours to co-operate with each Recipient including making available, without limitation, on reasonable notice during normal office hours, access to its premises to inspect records, relevant personnel to answer enquiries and the provision of reasonable facilities to such Recipient to enable it to perform its functions or review compliance by other parties of their obligations under the Transaction Documents and the reasonableness of the Relevant Regulatory Surplus Amount.

### *Transfer*

- 2.19 Barclays shall not at any time, prior to the repayment in full of the Reinsurer Loan, cease to own directly (or indirectly) at least 100 per cent. of the issued and outstanding share capital of New Barclays Life or the Reinsurer or at any time hold directly or indirectly less than 100 per cent. of the voting rights of the issued and outstanding share capital from time to time of New Barclays Life or the Reinsurer.
- 2.20 New Barclays Life shall not make any disposal or transfer of all or any of the Policies to any person other than with the prior written consent of Ambac, save that such consent shall not be required if either:
- (a) the Reinsurer Loan is repaid in full on or prior to such transfer; or
  - (b) such transfer is pursuant to (1) the exercise by the FSA or a liquidator of powers under the Financial Services and Markets Act 2000 or any rules or regulations made thereunder from time to time or (2) the exercise of the powers under the Financial Services Compensation Scheme or any rules or regulations made thereunder from time to time (a “**Directed Transfer**”).

### *Disposal of Assets*

2.21 New Barclays Life shall not transfer, sell, dispose of, create a trust over, grant any option over or otherwise deal with its assets (including the creation of any Security Interest) otherwise than in the ordinary course of business and on arm's length terms (taking into account all the circumstances and not only the value at which such dealing is effected) or otherwise as permitted or contemplated by the Transaction Documents.

### *Capital Expenditure*

2.22 New Barclays Life shall not enter into a material capital commitment (including any finance lease or material capital expenditure) other than in the ordinary course of its business (material being either £2 million in relation to a single commitment or £5 million as an aggregate per annum of several related commitments) without the prior written consent of Ambac (such consent not to be unreasonably withheld or delayed).

### *Mis-selling Liability*

2.23 New Barclays Life will not incur or set aside any liability, loss or reserve arising as a result of a Mis-selling Liability which, either alone or together with other Mis-selling Liabilities has a Material Adverse Effect. For the avoidance of doubt, the loss of future profit on a Policy subject to a Mis-selling Liability because it has lapsed or become paid up shall not be taken into account.

“**Mis-selling Liability**” means any anticipated losses, costs and expenses incurred or expected or payments made, by New Barclays Life:

- (a) which result from or arise in connection with any complaint, claim, legal action or proceedings brought against either of the Policy Originators by or on behalf of any person or group of persons whether as a result of any judgment of any court, any arbitration, any decision of the Ombudsman (and any former ombudsman the role of which has been replaced by the Ombudsman) or any other ombudsman, any direction of the Insurance Regulator or any other regulatory body or any agreed settlement or compromise (including an ex gratia payment made in the interests of saving or reducing any such losses so arising) or otherwise, including, without limitation, the costs and expenses incurred in investigating and defending against any complaint, claim, legal action or proceeding; or
- (b) which result from or arise in connection with New Barclays Life complying with (or, as the case may be, failing to comply with) rules, regulations, directions or guidance (whether formal or informal) set by or given by the Insurance Regulator or the Ombudsman (and any former ombudsman the role of which has been replaced by the Ombudsman) or any similar body or authority in relation to any person or group of persons (including in connection with the review process relating to the mis-selling of personal pension policies and free standing AVCs, as overseen by the Insurance Regulator and the directions given by the Insurance Regulator in relation to endowment policies), including, without limitation, the costs and expenses of any review required; or
- (c) which comprise, result from or arise in connection with any penalty or fine levied, or which result from or arise in connection with any disciplinary action undertaken by, the Insurance Regulator, the Ombudsman and any similar body or authority,

in each case resulting from or arising in connection with the marketing or sale of any Policies by either of the Policy Originators or by any person for the activities of whom either of the Policy Originators has or had legal responsibility.

### *Investment of Retained Surplus*

2.24 New Barclays Life shall use its reasonable endeavours to invest the amount corresponding to the Retained Surplus, after deduction of any amounts then in use as the working capital of New Barclays Life, available for investment from time to time, in assets which are cash, near cash or their equivalent (being assets, including money market funds, whose return is expected to reflect a rate of return related to fixed interest or a floating interest benchmark and or fluctuations in the value of debt obligations) or otherwise in accordance with the investment

parameters specified by New Barclays Life, acting as a prudent insurer, from time to time under the Investment Management Agreement. New Barclays Life shall notify Barclays and Ambac of any changes to the investment parameters specified by it under the Investment Management Agreement.

#### *Distributions*

- 2.25 New Barclays Life (subject to compliance with all applicable Laws) shall not transfer existing capital in the Long Term Business Fund to the shareholders fund unless (a) the amounts standing to the credit of the Long-Term Business Fund exceed the Retained Surplus or (b) such amount is in repayment of an amount previously transferred from the Shareholders' Fund or (c) such transfer amounts to (i) the recovery of Mis-selling Liabilities incurred in the Calculation Period ending 30 November 2003 pursuant to arrangements to be entered into between Barclays and New Barclays Life under which Barclays assumes the risks of Mis-selling Liabilities or (ii) the transfer of assets formerly allocated to the shareholders' fund of BLAC, which under the Scheme Transfer were transferred to the Long-Term Business Fund of New Barclays Life, from the Long-Term Business Fund of New Barclays Life to the shareholders' fund of New Barclays Life, such that, following the above transfers and entry into the above arrangements, the amount of the shareholders' fund of New Barclays Life is £59 million and the amount of Retained Surplus is not less than £146 million.
- 2.26 The Shareholders' Capital may only be reduced by New Barclays Life (subject to compliance with all applicable laws relating to the reduction of capital or other methods of extraction/distribution) and dividends may only be paid out of income, gains and profits arising in New Barclays Life's shareholders' fund at any time to the extent that at the time the reduction is proposed to be made or the dividend is declared, the sum of the Shareholders' Capital and the Retained Surplus is in excess of an amount equal to twice the Required Minimum Margin as determined at the relevant time of New Barclays Life and New Barclays Life, acting as a prudent insurer, does not reasonably expect an increase in the Required Minimum Margin of New Barclays Life during the current Calculation Period.

#### *Tax Treatment*

- 2.27 The amount of tax to be taken into account in the calculation of *RS* in accordance with the calculation of the Relevant Regulatory Surplus Amount under the Reinsurance Agreement for any Calculation Period at the end of which the Senior Funding Amount is greater than zero will be no greater than it would have been had the following assumptions proved correct for that Calculation Period, whether or not they do in fact prove correct:
- (i) the profit chargeable to corporation tax arising to New Barclays Life from its life assurance business carried on in its long term fund shall be calculated on the I minus E basis and the whole of such profit shall be the policyholders' share of relevant profits but for an amount equal to the disallowance of expenditure (not exceeding £1 million any such Calculation Period) incurred on items, relief for which in the calculation of such profits is denied by a statutory provision;
  - (ii) New Barclays Life has no profits arising from pension, life reinsurance or overseas life assurance business under sections 436, 439B or 441 of the Income and Corporation Taxes Act 1988 ("Taxes Act") for that Calculation Period or would have had no such profits for that period but for the disallowance of expenditure (not exceeding £1 million in any such Calculation Period) incurred on items, relief for which in the calculation of such profits is denied by a statutory provision;
  - (iii) in the calculation of the income and gains of New Barclays Life's life assurance business for that Calculation Period no adjustment will be required under a statutory provision which imputes income or gains to New Barclays Life, and for the purposes of this paragraph (iii) the imputation of income and gains by a statutory provision shall include circumstances in which it might be agreed between New Barclays Life and the Inland Revenue in settling the tax liability for any Calculation Period that the assessment should be determined on the basis that the statutory provisions had these effects;
  - (iv) no tax shall arise to New Barclays Life from any adjustment to deny relief for interest or any other deduction on the grounds that it relates to a transaction the main purpose, or one of the main purposes of which, was the securing of a tax advantage;

- (v) no tax shall arise from the apportionment to New Barclays Life of chargeable profits under section 747, Taxes Act;
- (vi) none of the transactions to which New Barclays Life is a party involve an actual provision which differs from the arm's length provision within the meaning of paragraph 1, Schedule 28AA, Taxes Act; and
- (vii) New Barclays Life has no liability to tax as a result of the absence of relief for any accumulated interest accrued and paid on the loans referred to in paragraphs 2.28(i) and (v).

2.28 The amount of RS calculated for any Calculation Period in accordance with the Reinsurance Agreement will be no less than it would have been had the assumption proved correct, whether or not it does in fact prove correct, that New Barclays Life has no overall liability to tax whether directly or under the terms of the Scheme as a result of the following transactions:

- (i) the making by Barclays of loans of an aggregate amount of £635,000,000 to BLAC under three separate advances between 21 and 23 November 2001, the repayment of which is limited recourse in accordance with the terms of the loan;
- (ii) the transfer on 30 November 2001 by BLAC of surplus of £635,000,000 from its long term business fund to its shareholders' fund;
- (iii) the payment by BLAC on 31 December 2001 of a dividend to the extent that it did not exceed £635,000,000;
- (iv) the reinsurance by BLAC of WLAC's linked liabilities and certain mortality risks under the terms of a reinsurance treaty entered into between BLAC and WLAC on 13 June 2003;
- (v) the making to WLAC by Barclays of a loan of £115,000,000 on 21 November 2001, the repayment of which is limited recourse in accordance with the terms of the loan;
- (vi) the transfer on 30 November 2001 by WLAC of surplus of £115,000,000 from its long term business fund to its shareholders' fund;
- (vii) the payment by WLAC on 31 December 2001 of a dividend to the extent that it did not exceed £115,000,000;
- (viii) the receipt by WLAC's shareholders' fund of £140,000,000 on 13 June 2003 from BBPLC and the transfer of assets representing the whole or part of this amount from the shareholders' fund of WLAC to the long term business fund of WLAC;
- (ix) the purchase by WLAC's long term insurance fund of BLAC from Barclays for £140,000,000 on 13 June 2003;
- (x) the implementation of the Scheme Transfer; and
- (xi) the repayment by WLAC of the loans referred to in paragraphs (i) and (v).

2.29 The assumptions set out in paragraphs 2.27 and 2.28 above are based on the tax law applying to life insurance companies at the date of this Agreement. If that law is amended in any Calculation Period to which this covenant applies, the terms of this covenant shall also be amended in such a way as to secure that, in determining the amount of tax to be taken into account in the calculation of RS under the tax law then applying, no tax shall be chargeable on trading profits that are calculated in respect of the whole or part of the life insurance business then carried on by New Barclays Life, other than tax attributable to the disallowance of expenditure (not exceeding £1 million in any such Calculation Period) incurred on items, the relief for which in the calculation of such profits is denied by a statutory provision.

2.30 Barclays shall treat any discussions with the Inland Revenue in relation to any of the statements referred to in paragraphs 2.27 and 2.28 on a stand alone basis without reference to any other ongoing discussions with the Inland Revenue on any other matter.

#### *Guarantees*

2.31 New Barclays Life shall not provide any guarantee of any third party's obligations otherwise than with the prior written consent of Ambac (such consent not to be unreasonably withheld or delayed).

### *Additional Borrowing*

2.32 For so long as the Notes are outstanding or amounts are owed under the Guarantee and Reimbursement Agreement, New Barclays Life agrees that it may not incur or have outstanding any indebtedness for borrowed money other than in respect of Permitted Indebtedness.

“Permitted Indebtedness” means:

- (a) any indebtedness arising under any of the Servicing Contracts;
- (b) any indebtedness outstanding pursuant to the Reinsurance Agreement;
- (c) any indebtedness incurred with the consent of Ambac (for so long as Ambac is a Controlling Creditor) or, thereafter, the Note Trustee;
- (d) any indebtedness permitted or contemplated by the Transaction Documents;
- (e) any indebtedness incurred to fund working capital not exceeding £5,000,000 in aggregate principal amount outstanding at any time;
- (f) any indebtedness in respect of any Capital Injection provided that the terms thereof are such that, in determining the liabilities of New Barclays Life, such liability is zero under the regulatory regime then in effect (other than at the time such Capital Injection is permitted to be repaid in accordance with the Subordinated Loan Agreement); and
- (g) any other form of indebtedness made for the purpose of making a Capital Injection provided that it is made on a fully subordinated basis at arm’s length terms (or better) and which falls to be included in the solvency margin of New Barclays Life within Article 27 of the Council Directive concerning life insurance (2002/83/EC) as amended from time to time (or any successor or replacement European Union directive, rule, regulation or law) as, from time to time, incorporated in and applied under English Law to a company carrying on business of the type then carried on by New Barclays Life.

### *Capital Injections*

2.33 Barclays shall not elect to make an Unfunded Capital Injection in order to alleviate the effect of a Potential Breach or a Breach if the aggregate total amount of all Unfunded Capital Injections exceeds £50m.

### *Consultant*

2.34 In the event that an Appointment Event has occurred and is continuing, New Barclays Life shall comply with the following provisions:

- (a) New Barclays Life shall, at the request of Ambac, commission an independent review (the “**Independent Review**”) for Ambac. The Independent Review will be conducted by such person as Ambac may approve (acting reasonably);
- (b) The Independent Review shall examine the causes of the Appointment Event and recommend such measures as it may be appropriate for a prudent insurer to take in response to the occurrence of the Appointment Event. New Barclays Life shall not be bound to take the measures recommended by the Independent Review but shall consider the recommendations in good faith and implement such of the measures at it concludes, acting as a prudent insurer, are appropriate.
- (c) New Barclays Life shall co-operate with any such investigations and afford full access to any books, records, personnel and facilities as may reasonably be required by the person carrying out any such investigations.
- (d) If the Appointment Event is continuing on the date on which the next Investor Report is issued following the date on which the Appointment Event occurred or such longer period as may be agreed by Ambac (for so long as it is Controlling Creditor), New Barclays Life will procure the appointment of a suitably qualified person nominated by Ambac as a non-executive director on the board of New Barclays Life.

For these purposes, an “**Appointment Event**” shall occur and be continuing for so long as the most recently issued Investor Report shows that the projected Relevant Regulatory Surplus Amounts in all Calculation Periods prior to the Final Maturity Date will be such that Notes remain outstanding on the Final Maturity Date.

### *Comfort Letter*

2.35 The comfort letter issued by Barclays in respect of New Barclays Life on 11 December 2002 shall remain in place and shall not be amended or withdrawn until all obligations of the Issuer to Ambac under the Guarantee and Reimbursement Agreement have been discharged in full.

### *Notification*

2.36 New Barclays Life shall promptly notify the Issuer Security Trustee and Ambac of any Breach or Potential Breach of the Deemed Warranties (of which the senior management of New Barclays Life becomes aware) which will have a Material Adverse Effect on New Barclays Life.

### *Material Adverse Effect for certain Deemed Warranties*

A failure by New Barclays Life to comply with the obligations set out in paragraphs 2.1, 2.15, 2.16 and 2.17 shall only constitute a Breach or Potential Breach of the Deemed Warranties to the extent that such failure will have a Material Adverse Effect on New Barclays Life.

### *Reinsurer Related Covenants*

2.37 New Barclays Life shall make such Capital Injections as may from time to time be necessary to ensure that the Reinsurer is properly capitalised in accordance with applicable Laws in Ireland for a business carrying on the business carried on by the Reinsurer.

2.38 The Reinsurer shall not and its directors, officers or agents shall not, default under or fail to comply with any law, statute, regulation, treaty, directive, bye-law, rule, order, delegated legislation or any official request of any governmental authority, whether local, regional, national or supranational (including rules and regulations relating to the conduct of business of any regulatory body with whose rules the Reinsurer or its directors, officers or agents are required to comply), in each case, as in force from time to time and interpreted at the relevant time which default or failure would have a Material Adverse Effect.

2.39 The Reinsurer shall maintain all Licences under any applicable Laws in force to carry on business of the class in which the Reinsurance Agreement falls and otherwise to carry on the business each proposes to carry on pursuant to the Transaction Documents.

2.40 The Reinsurer shall carry out and otherwise perform its obligations and enforce its rights in respect of the Reinsurance Agreement as would a prudent reinsurer carrying on a business similar to that of the Reinsurer and otherwise to administer the Reinsurance Agreement and its assets in such a manner as would a prudent reinsurer carrying on a business similar to that of the Reinsurer.

2.41 The Reinsurer will not enter into contracts (x) with any Barclays Group entity unless (i) such contract is entered into on arms-length terms or better or (ii) to the extent that the Reinsurer Security Trustee determines that entering into any such arrangement or contract has or is likely to have a Material Adverse Effect, the consent of the Controlling Creditor is obtained (such consent not to be unreasonably withheld or delayed) or (y) with any person unless such contract incorporates the limited recourse and non-petition provisions of the Reinsurer Deed of Charge.

2.42 The profit chargeable to corporation tax arising to the Reinsurer shall not exceed the aggregate of:

- (a) the investment income and gains arising from its contributed capital and retained profits;
- (b) the Reinsurer's Profit Margin; and
- (c) an amount equal to the disallowance of expenditure (not exceeding £1 million in any such Calculation Period) incurred on items, relief for which in the calculation of such profits is denied by a statutory provision.

### **Funding of Breaches**

In the period between the end of a Calculation Period and five Business Days prior to the succeeding Loan Interest Payment Date (or, if such Calculation Period ends in January, February or March, the second succeeding Payment Date) (the "**Breach Determination Period**"), Barclays will procure that Barclays Life makes certain calculations in respect of Breaches and Potential Breaches to determine (a) whether additional amounts are required to be funded in respect of such Breaches

and Potential Breaches and (b) what method of funding the Breaches and Potential Breaches is permitted (and, to the extent any funding then used is not permitted, to enable the funding to be altered.)

The aggregate loss amount in respect of Breaches and Potential Breaches will be determined in accordance with the Subordinated Loan Agreement. This will be compared with the aggregate loss amount of Breaches and Potential Breaches which are then funded in the ways described below. To the extent that the aggregate loss amount exceeds the aggregate funded loss amount by £7,500,000 or more, additional funding will be required.

Breaches and Potential Breaches may be funded in different ways. The four methods of funding are:

- (i) A Further Advance by Barclays under the Subordinated Loan Agreement to replace the reduction in the Relevant Regulatory Surplus Amount which has arisen in respect of the relevant Breach or Potential Breach.
- (ii) A Capital Injection (whether a Funded Capital Injection or an Unfunded Capital Injection) to make good such reduction (or to prevent it from arising).
- (iii) By reducing the Relevant Regulatory Surplus Amount and retaining such amount as a reserve. This is permitted only in the case of future losses arising from a Potential Breach or Future Losses arising from Breaches. It is permitted only to the extent that the reduction in the Relevant Regulatory Surplus Amount would not result in the Expected Amortisation of the Notes being unpaid on the next Interest Payment Date. If in a subsequent period there is an insufficient Relevant Regulatory Surplus Amount to enable the Expected Amortisation of the Notes to be paid on the related Interest Payment Date, the funding out of retained Relevant Regulatory Surplus Amounts from a prior period is required to be reversed to the extent necessary to enable the Expected Amortisation of the Notes to be paid on such related Interest Payment Date and one of the other methods of funding would be required to replace it.
- (iv) Out of Retained Surplus. This is permitted only in the case of losses arising from a Potential Breach or Future Losses arising from Breaches. It is permitted only to the extent that, in the case of a Potential Breach, the Free Assets of New Barclays Life is not reduced below the Required Minimum Margin and, in the case of a Future Loss in respect of Breaches, to the extent that the Free Assets of New Barclays Life is not reduced below twice the Required Minimum Margin.

For these purposes:

A “**Current Loss**” is, broadly, the loss arising from a payment of cash or meeting of a current liability (whether or not a reserve has previously been set aside to meet such liability) arising from a Breach.

“**Free Assets**” means, at any time, the excess of Admissible Assets over liabilities as determined pursuant to the Returns most recently filed or, if they are being prepared, in the course of preparation.

A “**Future Loss**” is a reserve for expected losses in the future arising from a Breach.

A “**Funded Capital Injection**” means any subscription for shares in New Barclays Life or the Reinsurer, any capital contribution, contingent loan, subordinated loan or other legally binding form of financing of New Barclays Life or the Reinsurer (each a “**Financing**”), under which money is made available on or about the time of entry into such agreement, to the extent that the funds made available to New Barclays Life or the Reinsurer either

- (a) are taken into account as an increase in the Relevant Regulatory Surplus Amount which increase would not have arisen but for the Financing having been made, or
- (b) are applied in establishing a reserve which, but for the making of such Financing, would have reduced the Relevant Regulatory Surplus Amount.

An “**Unfunded Capital Injection**” means any other legally binding agreement (including, without limiting the same, any guarantee, indemnity, insurance, undertaking to pay, contingent capital arrangement or other arrangement) (each an “**Undertaking**”) under which funds are agreed to be made available to fund losses, costs, liabilities and expenses, to the extent that such arrangement either

- (a) is taken into account in increasing the Relevant Regulatory Surplus Amount which would not have arisen but for the Undertaking having been made, or



- (b) as reducing a liability which would not have been reduced but for the Undertaking having been made.

Where a Potential Breach becomes an actual Breach and where a Future Loss becomes a Current Loss, adjustments to the way it is funded may be required so that the funding of Current Losses is not out of a reduction in the Relevant Regulatory Surplus Amount or out of Retained Surplus and the funding of a Future Loss does not reduce New Barclays Life's Free Assets below the level of twice the Required Minimum Margin.

In addition, if Barclays has funded a Breach or Potential Breach by way of a Further Advance it is permitted to change the funding to a Capital Injection subsequently; the addition to the Relevant Regulatory Surplus Amount arising from that Capital Injection would be a "**Refundable Amount**" and would be available to repay the Further Advance in priority to interest and principal on the Notes.

Conversely, if Barclays has funded a Breach or Potential Breach by way of a Capital Injection it is permitted to change the funding to a Further Advance subsequently; the amount so funded would reduce the Relevant Regulatory Surplus Amount available to be paid out and such amount would be repaid into the Shareholders' Fund. There would be no net reduction in funds available to pay to Noteholders as the Further Advance would make good the reduction in the Relevant Regulatory Surplus Amount in the same period.

If the aggregate amount funded by way of Further Advance, Capital Injection, reduction of Relevant Regulatory Surplus Amount and Retained Surplus in a Calculation Period turns out to be greater than necessary – for example because a reserve set aside for losses is higher than determined to be necessary – the excess (the "**Overfunded Amount**") will be repaid. The method of repayment and consequences will depend on how the funding of Breaches has occurred and how Barclays elects that the Overfunded Amount be repaid. To the extent that Barclays determines that Further Advances be repaid, the Overfunded Amount would be included in the Relevant Regulatory Surplus Amount but would also be a Refundable Amount (payable to the Subordinated Loan Provider in priority to the payment of interest and principal on the Notes). To the extent that Barclays determines that a Capital Injection be repaid the amount released from the reserve would not be included in the calculation of Relevant Regulatory Surplus Amount, but would be available to be paid into the Shareholders' Fund from the Long-Term Business Fund. To the extent that Barclays determines that the Retained Surplus out of which a loss has been funded be restored, the amount released from the reserve would not be included in the calculation of Relevant Regulatory Surplus Amount, but would be retained as part of the Retained Amount in the Long-Term Business Fund. To the extent that Barclays determines that the funding of a Breach or Potential Breach by way of a reduction in prior Relevant Regulatory Surplus Amounts be made good, the amount released from the reserve would be included in the calculation of Relevant Regulatory Surplus Amount and paid to the Reinsurer, being on-paid by the Reinsurer in accordance with the Reinsurer's Priority of Payments and thereby take into account as part of the Issuer Available Funds.

### Collateral

The Subordinated Loan Provider undertakes with the Issuer, Ambac and the Issuer Security Trustee, to put in place (at the Subordinated Loan Provider's own cost) an appropriate mark-to-market collateral agreement (which may be by way of outright transfer or take the form of a mortgage, charge, pledge or other security interest and which relates to collateral in the form of cash or securities or both), post collateral and obtain Moody's confirmation that the then current rating of the Notes (including the Unguaranteed Rating) shall not be subject to downgrade in support of its obligations to make Further Advances if the following conditions are met:

- (a) the senior unsecured unguaranteed long-term debt securities of Barclays Bank PLC are withdrawn or rated at or below A3 by Moody's and withdrawn or rated at or below A- by S&P; and
- (b) the Unfunded Expected Future Relevant Regulatory Surplus Loss in future Calculation Periods exceeds £25 million.

"Unfunded Expected Future Relevant Regulatory Surplus Loss" means, at any time, the aggregate of:

- (a) any Unfunded Capital Injections at that time in respect of Breaches; and

- (b) in respect of Breaches which are expected to give rise to a reduction in the Relevant Regulatory Surplus Amount in Calculation Periods ending after the time the determination is made and for which no reserve has been established in respect of any Future Losses in respect thereof, the present value of the projected reduction in such Relevant Regulatory Surplus Amounts arising by virtue of such Breach having occurred.

In determining the present value of any amount, the discount applied shall be the then weighted average of the rate of interest on the Subordinated Loan and the aggregate of the rate applicable to the fixed payments under the Swap Agreement plus the rate of the previous payable to Ambac under the Ambac Financial Guarantee.

In determining the projected reduction in the Relevant Regulatory Surplus Amounts arising by virtue of a Breach having occurred, Barclays shall procure that New Barclays Life makes a determination of such amount in accordance with actuarial practices and if Ambac (for so long as it is a Controlling Creditor) and, thereafter, the Issuer Security Trustee wish to dispute such determination such dispute shall be resolved by an Independent Actuary.

The amount of collateral shall not be required to exceed 100 per cent. of the Unfunded Expected Future Relevant Regulatory Surplus Loss from time to time and provisions shall be included in the mark-to-market collateral agreement which require the collateral to be valued as frequently as the Subordinated Loan Provider may request (but not more frequently than daily) and any excess of the value of the collateral be returned to it and any deficit be made good by it.

#### **INTERACTION BETWEEN NEW BARCLAYS LIFE'S CAPITAL AND RETAINED SURPLUS AND RELEVANT REGULATORY SURPLUS AMOUNT**

As at 30 November 2002, the combined excess of admissible assets of BLAC and WLAC over the aggregate value of their respective liabilities, in each case as determined for the purposes of the Regulatory Returns submitted for the financial year ending 30 November 2002, amounted to £205 million, of which approximately £59 million represents share capital, share premium and surplus previously transferred to the shareholders' fund (the "Shareholders' Capital") held within their shareholders' funds and the balance of approximately £146 million is surplus which has previously emerged and was held within their long term business funds (the "Retained Surplus").

The aggregate amount, as at 30 November 2002, of the required minimum margin (being the amount by which, under then current law and regulation, the admissible assets of BLAC and WLAC were required to exceed the aggregate value of their liabilities, in each case as determined for the purposes of the Regulatory Returns submitted for the financial year ending 30 November 2002) was approximately £84 million, leaving free assets of approximately £121 million.

The effect of the Scheme Transfer is that the assets formerly allocated to the shareholders' fund of BLAC were allocated to the Long-Term Business Fund of New Barclays Life; to reverse this effect and to meet costs incurred or may be incurred by New Barclays Life in respect of Mis-selling Liabilities, on or effective at 30 November 2003 New Barclays Life may enter into the following arrangements: (i) it may recover for Mis-selling Liabilities incurred in the Calculation Period ending 30 November 2003 pursuant to arrangements to be entered into between Barclays and New Barclays Life under which Barclays assumes the risks of Mis-selling Liabilities and (ii) it may transfer assets, formerly allocated to the shareholders' fund of BLAC which under the Scheme Transfer were transferred to the Long-Term Business Fund of New Barclays Life, from the Long-Term Business Fund of New Barclays Life to the shareholders' fund of New Barclays Life, such that, following the above transfers and entry into the above arrangements, the amount of the shareholders' fund of New Barclays Life is £59 million and the amount of Retained Surplus is not less than £146 million.

The following summarises the interaction between Shareholders' Capital, Retained Surplus and Relevant Regulatory Surplus Amounts.

#### **Treatment of the Retained Surplus**

The Retained Surplus will not, save as described below, be taken into account in the calculation of the Relevant Regulatory Surplus Amount and accordingly will not be used to make any payments due under the Reinsurance Agreement. However, investment income generated on the Retained Surplus during each Calculation Period will form part of the Relevant Regulatory Surplus Amount for that Calculation Period. The Retained Surplus, which represents the working capital of the company and is expected to be used accordingly, is expected, to the extent that it is free to be

invested, to be invested in cash or near cash assets or otherwise in accordance with investment parameters specified by New Barclays Life, acting as a prudent insurer, from time to time pursuant to the Reinsurer Investment Management and Custodian Agreement. Accordingly, subject to any Involuntary Reduction (as defined below), it is expected to accrue a return linked to floating rates (including short term fixed rates), but which is not subject to lapse, persistency, mortality, morbidity or other similar “insurance” risks.

In the event that the Relevant Regulatory Surplus Amount is negative in a Calculation Period, this will result in a reduction of the amount of Retained Surplus (an “**Involuntary Reduction**”). In the event that an Involuntary Reduction erodes the Retained Surplus in respect of any Calculation Period, New Barclays Life will be entitled to retain from the Relevant Regulatory Surplus Amount, in the next following Calculation Period in which a surplus emerges, an amount equal to the Involuntary Reduction(s). In the event that the Relevant Regulatory Surplus Amount in the following Calculation Period in which a surplus emerges is insufficient to restore the Retained Surplus then the balance shall be carried forward and retained from the Relevant Regulatory Surplus Amount in subsequent financial years, thereby reducing such Relevant Regulatory Surplus Amount below the level it would have been had no such retention been required.

Retained Surplus may be used in certain circumstances to fund the reserves required in respect of a Breach or Potential Breach (but not to fund actual payments required to be made in respect of any Breach) (see “*Summary of the Transaction Documents – Subordinated Loan Agreement – Funding of Breaches*”).

While the Notes are outstanding or Ambac is owed any money under the Guarantee and Reimbursement Agreement, New Barclays Life will not be permitted to make any reduction in the amount of Retained Surplus (other than as a result of an Involuntary Reduction) or transfer any of the Retained Surplus from its Long-Term Business Fund to the Shareholders’ Fund unless (a) the amount standing to the credit of the Long-Term Business Fund exceeds the Retained Surplus or (b) such amount is in repayment of an amount previously transferred from the Shareholders’ Fund or (c) such transfer amounts to (i) the recovery of Mis-selling Liabilities incurred in the Calculation Period ending 30 November 2003 pursuant to arrangements to be entered into between Barclays and New Barclays Life under which Barclays assumes the risks of Mis-selling Liabilities or (ii) the transfer of assets formerly allocated to the shareholders’ fund of BLAC, which under the Scheme Transfer were transferred to the Long-Term Business Fund of New Barclays Life, from the Long-Term Business Fund of New Barclays Life to the shareholders’ fund of New Barclays Life, such that, following the above transfers and entry into the above arrangements, the amount of the shareholders’ fund of New Barclays Life is £59 million and the amount of Retained Surplus is not less than £146 million.

#### *Treatment of the Shareholders’ Capital*

Neither the Shareholders’ Capital nor the investment return on the Shareholders’ Capital will be included in the Relevant Regulatory Surplus Amount and, subject as follows, New Barclays Life will be free to invest such monies and deal with the investment return as New Barclays Life, acting as a prudent insurer, sees fit.

The Shareholders’ Capital may be reduced by New Barclays Life (subject to compliance with all applicable Laws relating to the reduction of capital or other methods of extraction/distribution) and dividends may be paid out of income, gains and profits arising in New Barclays Life’s shareholders’ fund at any time without there being a Breach only to the extent that at the time the reduction is proposed to be made or the dividend is declared, the sum of the Shareholders’ Capital and the Retained Surplus is in excess of an amount equal to twice the Required Minimum Margin and New Barclays Life, acting as a prudent insurer, does not reasonably expect an increase in the Required Minimum Margin of New Barclays Life during the current Calculation Period. For these purposes, the methodology of calculating the Required Minimum Margin is that prevailing at the Closing Date, irrespective of changes in Law.

#### **Additional Capital (other than Capital Injections)**

If the amount of regulatory capital required to be held in New Barclays Life, at any time, is in excess of the sum of the Retained Surplus and the Shareholders’ Capital, Barclays may (but is not required to), in accordance with the intentions expressed in a comfort letter dated 11 December,

2002, inject additional capital into New Barclays Life (whether by way of equity investment, capital contributions subordinated loan or otherwise) (such amount, excluding any Capital Injection, being “Additional Capital”).

In the event that Barclays injects Additional Capital into New Barclays Life, such amounts may initially be held in the Shareholders’ Fund but may, at Barclays’ sole discretion, be transferred to the Long-Term Business Fund from time to time (including any separate sub-fund).

Investment income generated on Additional Capital (which is not also a Capital Injection) shall not form part of the calculation of the Relevant Regulatory Surplus Amount but shall be available for transfer to the Shareholders’ Fund and for distribution to Barclays subject to the restrictions referred to under “*Relevant Regulatory Surplus – Interaction between New Barclays Life’s Capital and Retained Surplus and Relevant Regulatory Surplus Amount – Treatment of Shareholders’ Capital*” above. Accordingly, if the assets are transferred to the Long-Term Business Fund, the investment return on them will reduce the Relevant Regulatory Surplus Amount as determined for the purpose of the amounts to be applied by New Barclays Life under the Reinsurance Agreement.

Additional Capital, which is in excess of the capital required to be retained by New Barclays Life, shall be available for distribution to Barclays subject to the restrictions referred to under “*Relevant Regulatory Surplus – Interaction between New Barclays Life’s Capital and Retained Surplus and Relevant Regulatory Surplus Amount – Treatment of Shareholders’ Capital*” above. If the Additional Capital (whether a Capital Injection or not) is held in the Long-Term Business Fund as part of a reserve but, subsequently, the reserve is released (in whole or in part), the amount released would be excluded from the Relevant Regulatory Surplus Amount. Additional Capital will not be used to replenish any reduction in Retained Surplus arising as a result of an Involuntary Reduction.

#### THE EXPENSES LOAN AGREEMENT

**Expenses Loan:** On or about the Closing Date, in order to fund certain initial costs and expenses and the Issuer Reserve Account, Barclays will enter into a loan agreement (the “**Expenses Loan Agreement**”) with the Issuer under which Barclays will agree to advance £7,400,000 to the Issuer on the Closing Date.

The advance made under the Expenses Loan Agreement on the Closing Date (the “**Expenses Loan**”) is a limited recourse obligation of the Issuer.

**Interest on the Expenses Loan:** The rate of interest payable under the Expenses Loan Agreement is 6.5 per cent. per annum (the “**Expenses Loan Interest Rate**”) and will:

- (a) be calculated on the basis of actual days elapsed and a year comprising three hundred and sixty-five (365) days (or, if any portion of that Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) accrue from day to day from (and including) the first day of such Loan Interest Period to (but excluding) the last day thereof; and
- (c) be paid by the Issuer to Barclays on the relevant scheduled Loan Interest Payment Date to the extent there are Issuer Available Funds remaining after paying or providing for payments with a higher ranking priority in the Issuer Priority of Payments.

**Deferred Expenses Loan Interest:** To the extent that (i) the aggregate of the interest payable by the Issuer on an Loan Interest Payment Date (ignoring the ability to defer payments) exceeds (ii) the amount of the Issuer Available Funds in respect of such Loan Interest Payment Date, such excess shall be deferred and shall be due and payable to Barclays under the Expenses Loan Agreement (together with accrued interest thereon) by the Issuer on the next succeeding Loan Interest Payment Date to the extent that the Issuer Available Funds (as calculated in respect of such succeeding Loan Interest Payment Date) are sufficient to pay such amounts after providing for all amounts payable on such succeeding Loan Interest Payment Date with a higher ranking priority in the Issuer Priority of Payments. To the extent that such deferred interest remains unpaid on such succeeding Loan Interest Payment Date, it shall be added to, the deferred interest determined in respect of such succeeding due date, and so on in respect of subsequent due dates.

**Withholding tax:** Interest will be paid subject to withholding or deduction for or on account of tax. To the extent any amount is required to be withheld or deducted for or on account of tax, the Issuer will not be required to pay any additional amounts.

**Repayment of the Expenses Loan:** The amount of the Expenses Loan repayable in respect of Loan Interest Payment Date is set out in the following table opposite the Loan Interest Payment Date on which it is payable (to the extent there are Issuer Available Funds remaining after paying or providing for payments with a higher ranking priority in the Issuer Priority of Payment) the “**Scheduled Expenses Loan Amount**”. The amount set out in the table in respect of an Loan Interest Payment Date together with the unpaid amount(s) in respect of any prior Loan Interest Payment Date, is referred to as the “**Expenses Loan Amortisation Amount** in respect of such Loan Interest Payment Date.

	<i>Amount repayable:</i>
<i>Loan Interest Payment Date falling in the following month:</i>	<i>£</i>
April 2004	1,480,000
April 2005	1,480,000
April 2006	1,480,000
April 2007	1,480,000
April 2008	1,480,000

**Expenses Loan representations, warranties and covenants:** The Issuer will give representations and warranties to Barclays relating to certain matters, including as to: its due incorporation; its capacity, power and authority to enter into the Transaction Documents to which it is a party; that such Transaction Documents do not conflict with, *inter alia*, laws and are legal, valid, binding and enforceable (subject to customary exceptions); and all filings and authorisations required have been made or obtained.

**Recourse and non-petition:** Barclays will agree, *inter alia*, that its rights are limited recourse and that it will not petition the courts or take any other step to wind up the Issuer in any jurisdiction as described under “– *Issuer Deed of Charge*” below.

## TRUST DEED

The Issuer, The Bank of New York, London Branch (in such capacity, the “**Note Trustee**”) and Ambac will enter into the Trust Deed on or about the Closing Date. The Trust Deed will contain the form of the Notes and will contain a covenant from the Issuer to the Note Trustee to pay all amounts due under the Notes. The Note Trustee will hold the benefit of that covenant on trust for the Noteholders. In addition, for so long as Ambac is a Controlling Creditor, the Note Trustee may only exercise certain of its powers and discretions at the direction of Ambac.

At any time after the occurrence of any of the Issuer Event of Default (as defined in Condition 10(b)) for as long as the Notes are outstanding, the Note Trustee:

- (i) shall (A) for so long as Ambac is a Controlling Creditor, if so required in writing by Ambac; or (B) if Ambac is no longer a Controlling Creditor, if so requested in writing by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding or if so directed by or pursuant to an Extraordinary Resolution of the Notes then outstanding, or
- (ii) may, in its absolute discretion, in the event that Ambac is no longer a Controlling Creditor;
- (iii) and subject, in each case, to being indemnified to its satisfaction in accordance with the Trust Deed,

give an Enforcement Notice to the Issuer declaring the Notes to be due and repayable.

At any time after an Enforcement Notice has been delivered, the Note Trustee without further notice, shall, if so directed in writing by Ambac (for so long as it is a Controlling Creditor) and, at any other time, may at its discretion but shall if so directed by the holders of not less than a majority in aggregate of the Principal Amount Outstanding of the Notes or if so directed by an Extraordinary Resolution of the Noteholders, direct the Issuer Security Trustee to take such proceedings against the Issuer to enforce the Issuer Security (provided that it shall not be bound to direct the Issuer Security Trustee to take such proceedings against the Issuer unless it shall have been indemnified and/or secured to its satisfaction) and the Issuer Security Trustee shall enforce the Issuer Security in accordance with the provisions of the Issuer Deed of Charge.

For so long as it is a Controlling Creditor, Ambac shall have the right to direct the Note Trustee in respect of the interests of the Noteholders other than in respect of any Basic Terms Modification or Reserved Rights.

In acting on a direction of Ambac, the Note Trustee shall not have regard to the interest of the Noteholders and shall have no liability in acting in compliance with the relevant directions.

Under the Trust Deed the Issuer will agree to provide, on each Interest Payment Date falling in April of each year commencing in April 2005, an annual investor report to noteholders (the “Investor Report”) in the form set out in Appendix 7.

#### **AMBAC FINANCIAL GUARANTEE, AMBAC LIQUIDITY FACILITY FINANCIAL GUARANTEE AND AMBAC SWAP FINANCIAL GUARANTEE**

On or about the Closing Date, Ambac will issue in favour of the Note Trustee (for itself and on behalf of the Noteholders) an unconditional and irrevocable financial guarantee (the “Ambac Financial Guarantee”) which is set out under “Form of Ambac Financial Guarantee” below.

In addition, on or about the Closing Date, Ambac will (i) issue an unconditional and irrevocable financial guarantee (the “Ambac Liquidity Facility Financial Guarantee”) in favour of the Liquidity Provider, of the Issuer’s obligations to pay interest (other than Liquidity Gross-up Amounts) and to repay principal outstanding under the Liquidity Facility on terms that Ambac will pay interest (other than Liquidity Gross-up Amounts) on a current basis and, to the extent that the Liquidity Facility has been drawn and not repaid, repay principal on the earlier of the Final Maturity Date and the date on which the Notes are redeemed in full and (ii) issue an unconditional and irrevocable financial guarantee (the “Ambac Swap Financial Guarantee” and, together with the Ambac Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee, the “Financial Guarantees”) in favour of the Swap Provider, of the Issuer’s obligations to pay the Swap Fixed Amount under the Swap Agreement.

#### **GUARANTEE AND REIMBURSEMENT AGREEMENT**

On or about the Closing Date, the Issuer and Ambac will enter into the Guarantee and Reimbursement Agreement under which the Issuer will be obliged, *inter alia*, to reimburse Ambac in respect of any payments made by Ambac under the Financial Guarantees and will be obliged to pay any fees and expenses of Ambac in respect of the provision of the Financial Guarantees.

In so far as Ambac makes payments under the Financial Guarantees, it shall be subrogated to the rights of the Noteholders against the Issuer or the Liquidity Provider against the Issuer or as Swap Provider against the Issuer (as applicable) in respect of any payments made, under the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee or the Ambac Swap Financial Guarantee, respectively. Payments due to Ambac pursuant to the Guarantee and Reimbursement Agreement will be paid in accordance with the terms (including the priority of payments) of the Issuer Deed of Charge and such payment obligations will be limited recourse obligations of the Issuer.

Under the Guarantee and Reimbursement Agreement, for so long as Ambac is a Controlling Creditor, Ambac will be entitled to control how the Issuer Security Trustee enforces its rights. By virtue of the provisions of the Issuer Deed of Charge and the Reinsurer Deed of Charge, the effect is that, for so long as Ambac is a Controlling Creditor, Ambac will control the actions of the Issuer Security Trustee and the Reinsurer Security Trustee under, respectively, the Issuer Deed of Charge and the Reinsurer Deed of Charge.

#### **SWAP AGREEMENT**

The Issuer will on or about the Closing Date enter into the Swap Agreement with the Swap Provider. Under the terms of the Swap:

- (a) on each Interest Payment Date the Swap Provider will pay to the Issuer an amount equal to the product of (i) the Swap Notional Principal in respect of such Interest Payment Date, (ii) the rate of interest on the outstanding Notes in the Interest Period ending on such Interest Payment Date and (iii) the actual number of days in such Interest Period divided by 365 (or, if

any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365); and

- (b) on each Loan Interest Payment Date, the Issuer will pay to the Swap Provider an amount equal to the product of (i) the Swap Notional Principal in respect of the Swap Fixed Interest Period ending on such Loan Interest Payment Date, (ii) a fixed swap rate (the “**Swap Fixed Rate**”) and (iii) the actual number of days in such Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365), the “**Swap Scheduled Amount**” (such amount being the “**Swap Fixed Amount**” in respect of the Loan Interest Period ending closest to such Loan Interest Payment Date)).

In circumstances where the long-term unsecured and unsubordinated debt obligations of Ambac (or its successor are downgraded below A- by S&P or A3 by Moody’s and either a Liquidity Facility Termination Event has occurred or insufficient amounts are available under the Liquidity Facility to meet the amount payable under paragraph (b) above, the amount in paragraph (a) above shall be rolled up (and accrue interest at the relevant rate in (a)(ii) on a compound basis) and be payable on the next Loan Interest Payment Date, such amount being set-off against the Swap Fixed Amount with only the net balance payable by the party owing the higher amount.

For these purposes, “**Swap Fixed Interest Period**” means the period from (and including) one Loan Interest Payment Date (or, in the case of the first Swap Fixed Interest Period, the Closing Date) to (and excluding) the immediately succeeding Loan Interest Payment Date.

**Withholding tax:** Neither the Issuer nor the Swap Provider will be obliged to gross up any payments under the Swap in the event of any withholding or deduction being required from any payment thereunder.

**Limited Recourse:** The obligations of the Issuer under the Swap will be limited to the proceeds of enforcement of the Issuer Security as applied in accordance with the Issuer Priorities of Payments.

**Termination Provisions:** Save as provided below, the Issuer may terminate the Swap if there is an Event of Default or a Termination Event (each as defined in the Swap and summarised below) with respect to the Swap Provider and the Swap Provider may, terminate the Swap if there is an Event of Default or a Termination Event with respect to the Issuer. Each Swap will contain termination events commonly found in standard 1992 ISDA Master Agreement documentation save for (i) the disapplication as regards the Issuer of the Events of Default relating to “Breach of Agreements”, “Credit Support Default”, “Misrepresentation”, “Default under Specified Transactions”, “Bankruptcy” and “Merger without Assumption” (ii) the disapplication as regards both parties of the Event of Default relating to “Cross Default” and (iii) the disapplication as regards both the Issuer and the Swap Provider of the Termination Events relating to “Tax Event”, “Tax Event upon Merger” and “Credit Event Upon Merger”.

So long as (x) Ambac is a Controlling Creditor or (y) no Ambac Swap Financial Guarantee Event of Default has occurred and is continuing, the Issuer and the Swap Provider shall only have the right to designate an Early Termination Date (as defined in the Swap Agreement) with the prior written consent of Ambac; provided further that the consent of Ambac shall not be required for the Issuer to designate an Early Termination Date resulting from any Termination Event listed in Section 5(b)(i) (“Illegality”) of the 1992 ISDA Master Agreement (Multicurrency – Cross Border).

Additional Termination Events:

**The Issuer:** The following shall constitute Additional Termination Events with respect to the Issuer:

- (a) an Issuer Event of Default (as defined in Condition 10 of the Terms and Conditions of the Notes) occurs and the Note Trustee gives an Enforcement Notice to the Issuer that the Notes are to be immediately due and payable and the Issuer shall be the sole Affected Party (as defined in the Swap Agreement).

In the case of such Additional Termination Event (unless Ambac is a Controlling Creditor and no Ambac Swap Financial Guarantee Event of Default has occurred and is continuing).

- (i) notice designating a day or an Early Termination Date shall be deemed to have been given under the Swap Agreement;

- (ii) the Issuer will not be required to seek to transfer the Swap;
- (iii) the Early Termination Date shall be deemed to be the date on which such notice is given to the Issuer; and
- (iv) for the purposes of Section 6(d)(ii), which provides the time at which payments in respect of an Early Termination Date are required to be made, such Additional Termination Event shall be treated as if it were an Event of Default.

**Swap Provider:** The following events shall constitute an Additional Termination Event with respect to the Swap Provider:

- (i) In the event that the short-term, unsecured and unsubordinated debt obligations of the Swap Provider (or its successor or assignee) and, if relevant, any Credit Support Provider of Swap Provider, are downgraded below “A-1+” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc. (“S&P”) and, as a result of such downgrade, the then current rating of the Notes may in the reasonable opinion of S&P be downgraded or placed under review for possible downgrade (an “S&P Rating Event”), and the Swap Provider does not, within 30 days of the occurrence of such S&P Rating Event, at its own cost, either:
  - (A) put in place an appropriate mark-to-market collateral agreement, (which may be based on the credit support documentation published by the International Swaps and Derivatives Association, Inc. (“ISDA”), or otherwise, and relates to collateral in the form of cash or securities or both) in support of its obligations under the Swap Agreement provided that (x) the Swap Provider shall be deemed to have satisfied the requirements of S&P if the amount of collateral agreed to be provided in the form of cash and/or securities (the “Collateral Amount”) is determined on a basis which is no more onerous than the criteria of S&P as at 31st September 1999 as amended in June 2000 which enable entities rated lower than a specified level to participate in structured finance transactions which, through collateralisation, are rated at a higher level (as referred to, in part, in the article entitled “*New Structured Finance Interest Rate and Currency Swap Criteria Broadens Allowable Counterparties*” in the January 1999 issue of S&P’s Structured Finance publication) (the “S&P Criteria”), and (y) the Collateral Amount shall not be required to exceed such amount as would be required (in accordance with the S&P Criteria) to restore the rating of the Notes to the level they would have been at immediately prior to such downgrading; or
  - (B) transfer all of its rights and obligations with respect to the Swap Agreement to a replacement third party whose short-term, unsecured and unsubordinated debt obligations are rated at least as high as “A-1+” by S&P and whose long-term, unsecured and unsubordinated debt obligations are rated at least as high as “A1” by Moody’s Investors Services (“Moody’s”) or, in each case, such other ratings as are commensurate with the ratings assigned to the Notes by such rating agencies from time to time; or
  - (C) procure another person to become co-obligor in respect of the obligations of Swap Provider under the Swap Agreement or take such other action as the Swap Provider may agree with S&P as will result in the rating of the Notes then outstanding following the taking of such action being rated no lower than the rating of the Notes immediately prior to such downgrade.
- (ii) In the event that (A) the long-term, unsecured and unsubordinated debt obligations of the Swap Provider (or its successor) and, if relevant, any Credit Support Provider of the Swap Provider, are downgraded below “A1” (or its equivalent) by Moody’s or (B) the short-term, unsecured and unsubordinated debt obligations of the Swap Provider (or its successor) and, if relevant, any Credit Support Provider of the Swap Provider, are downgraded below “Prime-1” (or its equivalent) by Moody’s, and the Swap Provider does not, on a best efforts basis and at its own cost, attempt to either:
  - (1) transfer all of its rights and obligations with respect to the Swap Agreement to either (x) a replacement third party with the Required Ratings (as defined below) domiciled in the same legal jurisdiction as the Swap Provider or the Issuer, or (y) a replacement third party agreed with Moody’s; or



- (2) procure another person to become co-obligor in respect of the obligations of the Swap Provider under the Swap Agreement, such co-obligor may be either (x) a person with the Required Ratings (as defined below) domiciled in the same legal jurisdiction as the Swap Provider or the Issuer, or (y) such other person as agreed with Moody's; or
- (3) take such other action as agreed with Moody's.

Pending compliance with any of (ii)(1), (ii)(2) or (ii)(3) above an Additional Termination Event will occur unless, Swap Provider, at its own cost:

- (4) within 30 days of the occurrence of such downgrade, puts in place a mark-to-market collateral agreement (which may be based on the credit support documentation published by ISDA, or otherwise, and relates to collateral in the form of cash or securities or both) in support of its obligations under this Agreement which complies with the Moody's Criteria (as defined below) or is such other lesser amount as may be agreed with Moody's and Moody's has confirmed that the then current rating of the Notes (including the Unguaranteed Rating) shall not be subject to downgrade.

If any of (ii)(1), (ii)(2) or (ii)(3) above are satisfied at any time, all collateral (or the equivalent thereof, as appropriate) transferred by the Swap Provider pursuant to (ii)(4) will be re-transferred to the Swap Provider and the Swap Provider will not be required to transfer any additional collateral.

- (iii) In the event that (A) the long-term, unsecured and unsubordinated debt obligations of the Swap Provider (or its successor) and, if relevant, any Credit Support Provider of the Swap Provider, are downgraded below "Baa2" (or its equivalent) by Moody's or (B) the short-term, unsecured and unsubordinated debt obligations of the Swap Provider (or its successor) and, if relevant, any Credit Support Provider of the Swap Provider, are downgraded below "Prime-2" (or its equivalent) by Moody's, and the Swap Provider does not, on a best efforts basis and at its own cost, attempt to either:

- (1) transfer all of its rights and obligations with respect to the Swap Agreement to either (x) a replacement third party with the Required Ratings (defined below) domiciled in the same legal jurisdiction as the Swap Provider or the Issuer, or (y) a replacement third Swap Providers agreed with Moody's; or
- (2) procure another person to become co-obligor in respect of the obligations of Swap Provider under this Agreement, such co-obligor may be either (x) a person with the Required Ratings (defined below) domiciled in the same legal jurisdiction as Swap Provider or The Issuer, or (y) such other person as agreed with Moody's; or
- (3) take such other action agreed with Moody's.

Pending compliance with (iii)(1), (iii)(2) or (iii)(3) above, an Additional Termination Event shall occur unless Swap Provider, at its own cost:

- (4) if Swap Provider has not already posted collateral pursuant to (ii)(4), within 30 days of the occurrence of such downgrade, puts in place a mark-to-market collateral agreement (which may be based on the credit support documentation published by ISDA, or otherwise, and relates to collateral in the form of cash or securities or both) in support of its obligations under the Swap Agreement which complies with the Moody's Criteria (defined below), and, if the Swap Provider has already posted collateral pursuant to (ii)(4) above, within 10 days of the occurrence of such downgrade, posts such additional collateral as is required to ensure the Collateral Amount complies with the Moody's Criteria, or in each case, is such other lesser amount as may be agreed with Moody's and Moody's has confirmed that the then current rating of the Notes (including the Unguaranteed Rating) shall not be subject to downgrade.

If any of (iii)(1), (iii)(2) or (iii)(3) are satisfied at any time, all collateral (or the equivalent thereof, as appropriate) transferred by the Swap Provider pursuant to (iii)(4) will be retransferred to the Swap Provider and the Swap Provider will not be required to transfer any additional collateral.

For the purposes of (ii) and (iii), "Required Ratings" means, in respect of the relevant entity, its short-term, unsecured and unsubordinated debt obligations are rated at least as high as "Prime-1" and its long-term, unsecured and unsubordinated debt obligations are rated at least as high as "A1", or such other ratings as may be agreed with Moody's from time to time.

“**Moody’s Criteria**” means that the Collateral Amount shall equal the sum of (a) the product of A multiplied by the mark-to-market value of the outstanding Transactions as determined by the Swap Provider in good faith on each Local Business Day, and (b) the product of B multiplied by the current aggregate notional amounts of the outstanding Transactions, where:

- (i) “A” means 102% and “B” means the average life of the outstanding Transactions multiplied by 20 basis points if the long-term, unsecured and unsubordinated debt obligations or the short-term, unsecured and unsubordinated debt obligations of Swap Provider (or its successor) and, if relevant, any Credit Support Provider of Swap Provider is downgraded below “A1” or “Prime-1” by Moody’s;
- (ii) “A” shall be equal to or greater than 102% and “B” means the average life of the outstanding Transactions multiplied by 40 basis points if the long-term, unsecured and unsubordinated debt obligations or the short-term, unsecured and unsubordinated debt obligations of Swap Provider (or its successor) and, if relevant, any Credit Support Provider of Swap Provider is downgraded below “Baa2” or “Prime-2” by Moody’s; and
- (iii) “A” means 0% and “B” means 0% in all other cases.

In relation to paragraphs (ii)(4) and (iii)(4) above, the Swap Provider will, upon receipt of reasonable notice from Moody’s, demonstrate to Moody’s the calculation by it of the mark-to-market value of the outstanding Transactions.

- (iv) (A) If the Swap Provider does not take any of the measures described in (i) above, such failure shall not be or give rise to an Event of Default but shall constitute an Additional Termination Event with respect to the Swap Provider and shall be deemed to have occurred on the thirtieth day following the relevant S&P Rating Event with the Swap Provider as the sole Affected Party and all Transactions as Affected Transactions.
- (B) If the Swap Provider does not take the measures described in (ii)(4) above, such failure shall not be or give rise to an Event of Default but shall constitute an Additional Termination Event with respect to the Swap Provider and shall be deemed to have occurred on the thirtieth day following such downgrade with the Swap Provider as the sole Affected Party and all Transactions as Affected Transactions. Further, notwithstanding Section 5(a)(ii) of the Swap Agreement, if 10 days after receiving notice of failure to use its reasonable efforts to take one of the measures described in (ii)(1), (ii)(2) or (ii)(3), the Swap Provider still has not used best efforts to take one of the above courses of action, this shall not constitute an Event of Default but shall be an Additional Termination Event with the Swap Provider as the sole Affected Party and all Transactions as Affected Transactions.
- (C) If the Swap Provider does not take the measures described in (iii)(4) above, such failure shall give rise to an Event of Default with respect to the Swap Provider and shall be deemed to have occurred (x) if the Swap Provider has already posted collateral pursuant to the provisions of (ii)(4) above, on the tenth day following such downgrade and (y) if the Swap Provider has not posted collateral pursuant to the provisions of (ii)(4) above, on the thirtieth day following such downgrade, in each case with the Swap Provider as the Defaulting Party. Further, notwithstanding Section 5(a)(ii) of this Agreement, if 10 days after receiving notice of failure to use its best efforts to take one of the measures described in (iii)(1), (iii)(2) or (iii)(3), the Swap Provider still has not used best efforts to take one of the above courses of action, this shall not constitute an Event of Default but shall be an Additional Termination Event with the Swap Provider as the sole Affected Swap Provider and all Transactions as Affected Transactions.
- (D) In the event that the Issuer were to designate an Early Termination Date and there would be a payment due to the Swap Provider, The Issuer may only designate such an Early Termination Date in respect of an Additional Termination Event if the Issuer has found a replacement counterparty willing to enter into a new transaction on terms that reflect as closely as reasonably possible the economic, legal and credit terms of the Terminated Transactions with the Swap Provider.

- (E) Each of the Issuer and the Issuer Security Trustee are required to use their best endeavours to co-operate with the Swap Provider in putting in place any credit support documentation, including agreeing to such arrangements in such documentation as may satisfy S&P and Moody's with respect to the operation and management of the collateral (subject always to proviso (x) and (y) in (i)(A) above) and entering into such documents as may reasonably be requested by the Swap Provider in connection with the provision of such collateral.

## Termination

Upon the occurrence of any Event of Default or Termination Event and subject to the foregoing paragraph, the Swap Agreement may be terminated in accordance with the detailed provisions thereof and a lump sum (the "**Termination Payment**") may become payable by the Issuer to the Swap Provider or vice versa.

In the event that termination is due to an Additional Termination Event, a Termination Event or an Event of Default (each as defined in the Swap Agreement) in relation to the Swap Provider, any Termination Payment payable by the Issuer to the Swap Provider will be subordinated to payments of principal on the Notes.

The Termination Payment will generally be based on the sum of (a) payments under the Swap that became due prior to the date on which the Swap Agreement is terminated, but remain unpaid and (b) an amount determined by obtaining firm quotations from at least three leading Swap dealers of the amount that each such dealer would pay to, or be required to be paid by, the party obtaining such quotations in consideration for having that dealer enter into a hedge transaction which such party on the same terms as the hedge transaction that was terminated, for the remaining maturity of such hedge transaction (or if such market quotations are unavailable or do not produce a commercially reasonable result, the losses suffered by either the Swap Provider or the Issuer, as applicable, as a result of termination of the Swap Agreement).

The party making such determination will be the Non-defaulting Party (as defined in the Swap) in the case of the occurrence of an Event of Default, or upon the occurrence of a Termination Event where there is one Affected Party, the party making such determination will be the party which is not the Affected Party. Interest will be payable on any Termination Payment calculated as provided above from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid at the "**Default Rate**" determined as provided in the Swap Agreement and shall continue to be so payable notwithstanding the occurrence of any Event of Default under the Notes and any failure to accelerate the Notes or to enforce the Issuer Security on the part of the Security Trustee or any of the Noteholders.

## LIQUIDITY FACILITY

On or prior to the Closing Date the Issuer will enter into a liquidity facility with the Liquidity Provider.

The Liquidity Provider will be a bank which, as at the Closing Date, has a rating assigned for its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least "A-1+" (or its long-term or short-term equivalent) from S&P and P-1 from Moody's. Thereafter, each of the Liquidity Provider must have a short-term rating of at least the Liquidity Requisite Rating.

Under the terms of the Liquidity Facility Agreement, the Liquidity Provider will initially provide a 364-day commitment to permit a drawing to be made of up to a maximum aggregate principal amount of £50,900,000. Thereafter the amount will decline as the outstanding principal amount of the Notes declines. The Issuer Cash Manager (acting on behalf of the Issuer) may draw under the Liquidity Facility to the extent that the Issuer has insufficient funds available on the Interest Payment Date falling in April within such 364 day period to pay in full any of the items specified in (A) to (G) (inclusive) in Condition 3 of the Terms and Conditions of the Notes (see *Terms and Conditions of the Notes – Priority of Payments Prior to Enforcement* below) (such shortfall, a "**Liquidity Shortfall**")

The advances made to the Issuer by the Liquidity Provider will be used by the Issuer to fund payments of the Swap Fixed Amount and payments ranking higher in the order of priority. No drawing may be made if the Borrowing Base Test is failed.

**Borrowing Base Test:** The Borrowing Base test will be met if the net present value of the Relevant Regulatory Surplus Amounts in all Calculation Periods to (and including) that ending in April 2012, as shown in the most recent Investor Report is at least equal to 100 per cent. of the amount proposed to be drawn.

The Liquidity Facility Agreement will provide that if at any time the rating of the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Provider falls below the Liquidity Facility Requisite Rating (or the rating which is otherwise acceptable to the Rating Agencies) or the Liquidity Provider refuses to extend the term of the Liquidity Facility, the Issuer shall require the Liquidity Provider to pay into a designated bank account of the Issuer (the "**Liquidity Reserve Account**") maintained with an appropriately rated bank an amount equal to its undrawn commitment under the Liquidity Facility Agreement. Amounts standing to the credit of such account will be available to the Issuer for drawing in the event of there being a Liquidity Shortfall and in the circumstances provided in the Liquidity Facility Agreement. The Issuer may also, at any time, replace such Liquidity Provider provided that such Liquidity Provider is replaced by a bank which has a short-term rating of at least the Liquidity Facility Requisite Rating and all amounts outstanding to such Liquidity Provider are repaid in full.

Certain of the Issuer's obligations under the Liquidity Facility are guaranteed under the Ambac Liquidity Facility Financial Guarantee.

**Limit on recourse and non-petition:**

The Liquidity Provider will agree to be bound by the terms of the Issuer Deed of Charge and the Liquidity Provider and the Issuer will agree that the provisions relating to recourse and non petition in the Issuer Deed of Charge shall be incorporated in the Liquidity Facility Agreement *mutatis mutandis*.

The Liquidity Facility Agreement will be governed by English law.

**ISSUER DEED OF CHARGE**

The Issuer will enter into the Issuer Deed of Charge on the Closing Date to grant security (the "**Issuer Security**") to the Issuer Security Trustee on behalf of the Noteholders, Ambac, the Liquidity Provider, the Swap Provider, the Note Trustee, the Issuer Security Trustee, the Agents, the Issuer Account Bank and the Issuer Administrator (together, the "**Issuer Secured Creditors**") in the form of, *inter alia*:

- (a) by way of first fixed security for the payment or discharge of the Issuer Secured Obligations an assignment of, all of its right, title, interest and benefit, existing now or in the future, in, to, under or in respect of the Reinsurer Loan Agreement, the Subordinated Loan Agreement, the Expenses Loan Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Agency Agreement, the Issuer Account Bank Agreement, the Guarantee and Reimbursement Agreement, the Issuer Administration Agreement, the Issuer Cash Management Agreement and the Reinsurer Deed of Charge (together, the "**Issuer Assigned Agreements**") and any other agreement, instrument or notice to which the Issuer becomes a party or in respect of which it has or may have any right, interest, title or benefit, either existing now or at any time with future (the "**Other Secured Contractual Rights**"), including, without limitation:
  - (i) the benefit of all representations, warranties, covenants, undertakings and indemnities under or in respect of the Issuer Assigned Agreements and the Other Secured Contractual Rights;
  - (ii) all of its rights to receive payment of any amounts which may become payable to it pursuant or with respect to such Issuer Assigned Agreements and Other Secured Contractual Rights;
  - (iii) all payments received by it pursuant to, or with respect to, such Issuer Assigned Agreements and Other Secured Contractual Rights;
  - (iv) all its rights to serve notices and/or make demands pursuant to such Issuer Assigned Agreements and Other Secured Contractual Rights and/or to take such steps as are required to cause payments to become due and payable thereunder or with respect to such Issuer Assigned Agreements and Other Secured Contractual Rights;

- (v) all of its rights of action in respect of any breach of such Issuer Assigned Agreements or Other Secured Contractual Rights; and
  - (vi) all of its rights to receive damages, compensation or obtain other relief including in respect of any breach of or default in respect of such Issuer Assigned Agreements or Other Secured Contractual Rights.
- (b) by way of first fixed security for the payment or discharge of the Issuer Secured Obligations, a charge over all of its right, title, interest and benefit, existing now or in the future, in and to all sums of moneys which may now be or hereafter are from time to time standing to the credit of the Issuer Accounts, and any other bank account or book debt in which the Issuer may at any time acquire any right, title, interest or benefit and each debt represented by these, including all interest accrued and other moneys received in respect thereof.
  - (c) by way of first fixed security for the payment or discharge of the Issuer Secured Obligations, an assignment of, all of its right, title, interest and benefit, existing now or in the future, in and to the Eligible Deposits which the Issuer may at any time acquire, make or otherwise obtain an interest or benefit in, together with all moneys, income and proceeds payable or due to become payable in respect of such Eligible Deposits and all interest accruing on them from to time and the benefit of all covenants relating to such Eligible Deposits and all rights and remedies for enforcing the same.
  - (d) by way of first floating charge for the payment or discharge of the Issuer Secured Obligations, the whole of its undertaking and all of its property and assets whatsoever and wheresoever situate, present and future, other than:
    - (i) any property or assets from time to time or for the time being charged by way of fixed charge, or otherwise assigned as security; and
    - (ii) the share capital of the Issuer.

**Issuer Priority of Payments:** On each Interest Payment Date which corresponds to a Loan Interest Payment Date, in accordance with the Issuer Pre-Enforcement Priority of Payments.

On each Interest Payment Date which does not also correspond to a Loan Interest Payment Date and prior to the service of an Enforcement Notice, to pay *pro rata* all amounts of interest which are then due or accrued due on the Notes.

Notwithstanding the security interests created by or pursuant to the Issuer Deed of Charge, on any Business Day other than an Interest Payment Date which corresponds to a Loan Interest Payment Date prior to the service of an Enforcement Notice, the Issuer Cash Manager, as agent for the Issuer, may instruct the Issuer Account Bank to withdraw moneys standing to the credit of the Issuer Reserve Account (but only to the extent that such withdrawal does not cause the Issuer Reserve Account to become overdrawn) to pay any amounts that are due and payable of a type specified in A to D (inclusive) of Condition 3 of the Terms and Conditions of the Notes (see *Terms and Conditions of the Notes – Priority of Payments Prior to Enforcement*).

#### **Limited Recourse and Non-Petition**

Each of the Issuer Secured Creditors will agree (and the Noteholders shall be deemed to have so agreed and shall be subject thereto) with the Issuer and the Issuer Security Trustee that:

- (a) it will only have recourse in respect of any amount, claim or obligation due or owing to it by the Issuer under or in connection with the Issuer Deed of Charge or under any other Transaction Documents (the “**Claims**”) to the extent of available funds in accordance with the applicable Issuer Priorities of Payments which shall be applied by the Issuer or, as the case may be, the Issuer Security Trustee subject to and in accordance with the terms of the Issuer Deed of Charge and after all prior ranking claims in respect of those funds have been paid or discharged in full in accordance with that Issuer Priorities of Payments;
- (b) if, after enforcement of the security interests created by the Issuer Deed of Charge to the greatest extent practicable and the application of the proceeds of enforcement in accordance with the Issuer Post-Enforcement Priorities of Payments, any Claim remains outstanding, that Claim shall be extinguished and the Issuer Secured Creditor shall have no further claim against the Issuer.

Each of the Issuer Secured Creditors will agree (and the Noteholders shall be deemed to have so agreed and shall be subject hereto) with each other and with the Issuer and the Issuer Security Trustee, that prior to the date which is two years and one day after the later of (i) the Final Maturity Date and (ii) the payment in full of all amounts outstanding under the Notes and the other Transaction Documents, it shall not take or join in taking any corporate action or other steps or legal proceedings in respect of insolvency proceedings.

Each of the Issuer Secured Creditors will agree with the Issuer and the Issuer Security Trustee (and the Noteholders shall be deemed to have agreed) that:

- (a) only the Issuer Security Trustee (or any receiver where applicable) will be entitled to enforce the Issuer Security;
- (b) unless otherwise provided for in the Issuer Deed of Charge, such Issuer Secured Creditor (other than a Controlling Creditor) shall not take any steps to direct the Issuer Security Trustee to enforce the Issuer Security or any part of it nor take any steps or pursue any action whatsoever for the purpose of recovering any debts due or owing to it by the Issuer or in respect of insolvency proceedings in respect of the Issuer unless the Issuer Security Trustee having become bound to take any steps or proceedings to enforce the Issuer Security fails to do so within a reasonable period of becoming so bound and such failure is continuing (in which case each Issuer Secured Creditor shall be entitled to take any such steps and proceedings as it shall deem necessary provided that an Issuer Secured Creditor (other than Ambac for so long as Ambac is a Controlling Creditor and thereafter the Note Trustee (acting on behalf of the Noteholders)) shall not take any steps or proceedings which would lead to the commencement of insolvency proceedings in respect of the Issuer); and
- (c) in the case of each of the Issuer Secured Creditors, it shall not exercise or claim any right of set-off or combination (unless expressly provided for under the terms of the Transaction Documents) or lien in respect of any Issuer Secured Obligation owed to it or take any security interest or guarantee or other assurance therefore or take or do or omit to take or do any act or thing to prejudice or impair in any way the subordination contemplated by the Issuer Deed of Charge or any other Transaction Document.

On each Interest Payment Date corresponding to a Loan Interest Payment Date which falls prior to the service of an Enforcement Notice, the amount calculated as the amount of the Issuer Available Funds shall be applied by the Issuer in making payments in accordance with, prior to the service of an Enforcement Notice, the Issuer Pre-Enforcement Priority of Payments and on and following the service of an Enforcement Notice, the Issuer Post-Enforcement Priority of Payments.

#### **ISSUER ADMINISTRATION AGREEMENT**

On or about the Closing Date the Issuer will enter into an agreement with Structured Finance Management (Ireland) Limited of Trinity House, Charleston Road, Ranelagh, Dublin 6, Ireland (the “**Issuer Administrator**”) under which the Issuer Administrator will provide corporate and administration services to the Issuer

The Issuer Administrator will be entitled to charge a annual fee payable on each Interest Payment Date falling in April of each year subject to the Issuer having sufficient funds available to pay such amount out of the Issuer Available Funds having paid all other higher ranking amounts in the Issuer Pre-Enforcement Order of Priority of Payments or, as applicable, the Issuer Post-Enforcement Order of Priority of Payments.

#### **ISSUER ACCOUNT BANK AGREEMENT**

On or about the Closing Date, the Issuer will enter into a bank account agreement (the “**Issuer Account Bank Agreement**”) with The Bank of New York, London Branch (the “**Issuer Account Bank**”) pursuant to which the Issuer will establish a transaction bank account (the “**Issuer Transaction Account**”), a liquidity reserve account, (the “**Liquidity Reserve Account**”) a share capital account (the “**Issuer Share Capital Account**”), and a reserve account (the “**Issuer Reserve Account**”) (together, the “**Issuer Accounts**”).

## ISSUER CASH MANAGEMENT AGREEMENT

On or about the Closing Date, the Issuer will enter into a cash management agreement (the “**Issuer Cash Management Agreement**”) with, *inter alios*, The Bank of New York, London Branch (the “**Issuer Cash Manager**”) pursuant to which the Issuer Cash Manager will provide certain cash management services and will, in accordance with the directions of the Issuer as set out in the Issuer Cash Management Agreement, instruct (on behalf of the Issuer) the Issuer Account Bank to deposit amounts standing to the credit of the Issuer Reserve Account or the Liquidity Reserve Account in Eligible Deposits. The Issuer Cash Manager shall not be liable for the performance of the Eligible Deposits.

## USE OF PROCEEDS

The gross proceeds from the issue of the Notes (from which there will be no deduction) will be approximately £400,000,000.

On the Closing Date, Barclays will lend to the Issuer under the Subordinated Loan Agreement an aggregate principal amount of £356,954,189 as described in “*Summary of the Transaction Documents – Subordinated Loan Agreement*” above.

On the Closing Date, the Issuer will lend to the Reinsurer under the Reinsurer Loan Agreement an aggregate principal amount of approximately £756,954,189 as described in “*Summary of Transaction Documents – Reinsurer Loan Agreement*” above.

An amount equal to the fees and expenses incurred by the Issuer in connection with the issue and listing of the Notes will be lent to the Issuer by Barclays in accordance with the Expenses Loan Agreement. No fees and expenses incurred by the Issuer in connection with the issue and listing of the Notes will be deducted from the gross proceeds of the Notes.

On the Closing Date, the Reinsurer will use the proceeds of the Reinsurer Loan to pay the outstanding borrowing (and accrued interest thereon) from Barclays for the assets acquired by it from Barclays on 26 September 2003 in connection with the Scheme Transfer and the provision of reinsurance under the Reinsurance Agreement.



## BLAC, WLAC AND NEW BARCLAYS LIFE

### BLAC

BLAC was formed in 1965 by the then London and Edinburgh Group as Griffin Assurance Company Limited as a sister company to their unit trust operation as a further opening to create investment products for unit trusts. In 1968 Martins Bank acquired a 50% share and in 1969 was itself merged with Barclays. The remaining 50% was purchased by Barclays Group in 1972. BLAC remained wholly owned by Barclays until 13 June 2003 when it was sold to WLAC.

Initially all products were sold to customers outside the banking group but by 1992 100% of products were retailed to customers of Barclays.

BLAC developed its own sales force, at one stage reaching close to 2,000 staff and transferred the sales force to Barclays Financial Management Limited, a subsidiary of Barclays in 1999. From July 2001 the Barclays Group formed an alliance with the Legal and General Group and BLAC ceased to accept applications for new business from that time. BLAC finally withdrew from the Barclays Marketing Group in 2002.

Whilst many of the initial BLAC contracts were regular premium savings endowments (unit-linked), over time BLAC gradually concentrated on regular premium mortgage endowments, regular premium pensions contracts and regular premium protection contracts. BLAC also developed some single premium investment bonds. BLAC has never written with profit participating contracts, policies containing onerous option guarantees or so-called "precipice" bonds.

On 21 November 2001, BLAC entered into an agreement (the "**BLAC Contingent Loan Agreement**") with Barclays under which Barclays made a contingent loan to BLAC of £635 million.

In January 2003, £16,789,000 outstanding under the BLAC Contingent Loan Agreement was repaid out of surplus.

### WLAC

WLAC was formed in 1918 under the name The Atlantic Assurance Company Limited; on 3 November 1976 it changed its name to Property Growth Pensions and Annuities Limited; it changed its name in 1990, when Woolwich plc ceased to be a tied agent of a company now within the Royal Sun Alliance group ("**RSA**"), as a company owned as to 51% by Woolwich plc and the balance by RSA. Woolwich plc increased its interest in WLAC to 90% in 1997 and finally acquired a 100% holding from December 2000.

The company was acquired as part of a strategic plan to take greater control of the Woolwich group's products and development. Since 1990 all products have been sold through Woolwich branches through sales staff employed by Woolwich. Products were initially aimed at supporting the bank's retailing of mortgages through unit-linked endowment and protection policies. WLAC's products set was later expanded into a range of guaranteed bonds and pensions products. WLAC finally ceased to receive new applications from October 2001.

WLAC became a member of the Barclays Group when Woolwich plc was acquired by Barclays PLC in October 2000. Although the Policy Originators have since then both been members of the Barclays Group their life insurance businesses have been managed separately.

On 21 November 2001, WLAC entered into an agreement (the "**WLAC Contingent Loan Agreement**") with Barclays under which Barclays made a contingent loan to WLAC of £115 million.

In January 2003, £13,000,000 outstanding under the WLAC Contingent Loan Agreement was repaid out of surplus.

On 13 June 2003 WLAC acquired BLAC from Barclays for £140 million.

### Acquisition of BLAC by WLAC

As a result of the integration of BLAC and WLAC, there was no longer any need, or benefit, to maintain BLAC and WLAC as separate life insurance businesses. Barclays Group has been consolidating its activities to make them more efficient with the aim of improving customer service. Part of this activity is integrating the Policy Originators. The benefits of this include the removal of any duplication of effort and a single focus to provide higher standards of service to its policyholders.

On 19 May, 2003, the share capital of WLAC was transferred by Woolwich plc to Barclays.

On 13 June, 2003, Barclays made a capital injection of £140 million into WLAC shareholders' fund, which was transferred to its long-term fund. The proceeds of the capital injection were used by WLAC to purchase BLAC from Barclays as an asset of the long-term business fund of WLAC.

As a result of the acquisition, the purchase price paid by WLAC to acquire BLAC of £140 million was written down to £67.8 million to represent the directors of WLAC's estimate of the embedded value of the Purchase, being net tangible assets plus the value of in force assets acquired.

On or around the same date, WLAC entered into a reinsurance agreement (the "**Linked Reassurance Agreement**") with BLAC. Under the Linked Reassurance Agreement, BLAC reinsured the whole of WLAC's unit-linked liabilities. The assets in WLAC's unit-linked funds were transferred to BLAC, where they were allocated to BLAC's own unit-linked funds.

On 26 September, 2003 (the "**Scheme Date**"), under an insurance business transfer scheme made pursuant to the Financial Services and Markets Act 2000 (the "**Scheme Transfer**"), the whole business of BLAC was transferred to WLAC. The Scheme Transfer triggered the termination of the Linked Reinsurance Agreement.

As a result of the Scheme Transfer, the BLAC Contingent Loan Agreement and the WLAC Contingent Loan Agreement became, on their terms, immediately repayable in full on the Scheme Date. Under the Scheme Transfer, the liability of BLAC to make payment under the BLAC Contingent Loan Agreement was transferred to WLAC. Accordingly, on the Scheme Date, WLAC was required to make repayment in full under both the BLAC Contingent Loan Agreement and the WLAC Contingent Loan Agreement.

WLAC and Barclays entered into an agreement dated 9 September 2003 (the "**Contingent Loans Discharge Agreement**") under which WLAC agreed to transfer to Barclays, on the Scheme Date, assets and cash in an amount equal to the liabilities under the BLAC Contingent Loan Agreement and the WLAC Contingent Loan Agreement. On the Scheme Date, the aggregate amount of these liabilities was £752.5 million. Of the £752.5 million, £0.5 million was repaid in cash derived from the surplus of WLAC that had arisen prior to 1 December 2002 and been carried forward unappropriated. The remaining £752 million of the amount transferred to Barclays consisted of assets held in the unit-linked funds of WLAC, following transfer of those funds to it from BLAC pursuant to the Scheme Transfer.

Barclays and the Reinsurer entered into an agreement dated 9 September 2003 (the "**Linked Assets Sale and Purchase Agreement**") under which Barclays agreed to sell to the Reinsurer, on the Scheme Date, the £752 million assets which had been transferred to it by WLAC from the unit-linked funds of WLAC. The payment of the consideration was financed on 1 October 2003 by Barclays making the Bridging Contingent Loan to the Reinsurer. On the making of the Reinsurer Loan, the proceeds thereof will be applied by the Reinsurer in repaying the Bridging Contingent Loan and accrued interest on it. The amount of the Reinsurer Loan will be increased as necessary to fund payment of accrued interest, and that increase will be funded by a corresponding increase in the amount of the Subordinated Loan.

## NEW BARCLAYS LIFE

### Introduction

New Barclays Life was incorporated in England and Wales on 22 October 1918 (under registered number 151731 as a company limited by shares under the name The Atlantic Assurance Company Limited. The name of New Barclays Life was changed to Property Growth Pensions and Annuities Limited on 3 November 1976, to Woolwich Life Assurance Company Limited on 17 September 1990 and further changed to Barclays Life Assurance Company Limited on 29 September 2003. The registered office of New Barclays Life is at 54 Lombard Street, London EC3P 3AH. The authorised share capital of New Barclays Life is £40,000,000 divided into 40,000,000 ordinary shares of £1.00 each of which £30,000,000 are issued and fully paid and held by Barclays.

The principal objects of New Barclays Life are, *inter alia*, to carry on all kinds of long-term insurance business.

The auditors of New Barclays Life are PricewaterhouseCoopers LLP of Southwark Towers, 32 London Bridge Street, London SE1 9SY.

### Directors and Secretary

The directors of New Barclays Life and their respective addresses and other principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
Ian George Gordon Balls	25 Quarry Hill, Haywards Heath, RH16 1NG	Managing Director
John Philip Hine	3 Walnut Tree Cottages, Wimbledon, London SW19 5DN	Director
Christopher Owen Milson	31 Hillcrest Road, West Purley, Surrey CR8 2JF	Director
David Holcroft	Rose Cottage, Basted Mill, Borough Green, Sevenoaks, Kent TN15 8PG	Director
Raymond Greenshields	Braybourn House, Hibbert Road, Bray, Berkshire SL6 1UT	Director

New Barclays Life has no employees.

New Barclays Life's company secretarial and other general administrative services will be provided by Barcosec Limited having its registered office at 54 Lombard Street, London EC3P 3AH.

### Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of New Barclays Life as at the date of this Offering Circular extracted, without material adjustment, from its unaudited accounting records is as follows:

#### *Share capital*

##### **Authorised:**

£40,000,000 divided into 40,000,000 ordinary shares of £1.00 each £40,000,000

##### **Issued:**

£30,000,000 divided into 30,000,000 ordinary shares of £1.00 each (fully paid) £30,000,000

##### **Indebtedness:**

Finance leases £20,269

Total indebtedness £20,269

Total capitalisation and indebtedness: £30,020,269

New Barclays Life has a contingent liability in respect of levies to the Investors Compensation Scheme ('ICS'). The ICS will meet the costs of compensation to investors who have mis-sold personal pensions after receiving inappropriate advice from independent financial advisers who are now unable to meet the costs. The amount of such levies and the timing of them is not capable of estimation at this time. Save for the foregoing, at the date of this Offering Circular, New Barclays

Life has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## REINSURER

### Introduction

The Reinsurer was incorporated in Ireland on 2 April 2003 (under registered number 369378) as a private company limited by shares under the Irish Companies Acts, 1963 to 2001 under the name Balinavack Byways Limited. The name of the Reinsurer was changed to Barclays Reinsurance Dublin Limited on 14 July 2003. The registered office of the Reinsurer is at 47/48 St. Stephen's Green, Dublin 2, Ireland. The authorised share capital of the Reinsurer is £20,000,000 divided into 20,000,000 ordinary shares of £1.00 each, of which 450,000 are issued and fully paid and held by New Barclays Life.

The principal objects of the Reinsurer are set forth in clause 2 of its Memorandum of Association and are, *inter alia*, to carry on in Ireland any class or classes of insurance business including the business of reinsurance and to reinsure or counter-insure all or any risks or liabilities and to carry on all classes of insurance and reinsurance business.

The Reinsurer has not engaged, since its incorporation, in any activity other than those incidental to its incorporation under the Irish Companies Acts, 1963 to 2001, the execution of the Reinsurer Loan Agreement and the Reinsurance Agreement and of the other documents and matters referred to or contemplated in this Offering Circular to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

The Reinsurer will covenant to observe certain restrictions on its activities, pursuant to the Reinsurer Loan Agreement.

The auditors of the Reinsurer are PricewaterhouseCoopers of Wilton Place, Dublin 2, Ireland.

### Directors and Secretary

The directors of the Reinsurer and their respective addresses and other principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
Eamon Slevin	22 Muckross Crescent, Perrystown, Dublin 12, Ireland	Managing Director
Fergal Ignatius O'Shea	5 Milford, Malahide, Co Dublin, Ireland	Director
John Philip Hine	3 Walnut Tree Cottages, Wimbledon, London, SW19 5DN, UK	Director

The secretary of the Reinsurer is Eamon Slevin.

The Reinsurer has no employees.

### Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of the Reinsurer as at the date of this Offering Circular, adjusted for the Reinsurer Loan to be made by the Issuer on the Closing Date, is as follows:

#### *Share capital*

##### **Authorised:**

£20,000,000 divided into 20,000,000 ordinary shares of £1.00 each

##### **Issued:**

450,000 ordinary shares of £1.00 each (fully paid) £450,000

##### **Capital reserve:**

Non-distributable capital reserve<sup>1</sup> £6,750,000

##### **Total Capitalisation**

£7,200,000

##### **Loan capital:**

The Reinsurer Loan<sup>2</sup> £756,954,189

Total capitalisation and indebtedness: £764,154,189

1 This comprises a non-refundable capital contribution made by New Barclays Life on 19 September 2003 which has been credited to a non-distributable capital reserve by the Reinsurer.

2 The Reinsurer Loan to be made on the Closing Date will be used by the Reinsurer to pay the Bridging Contingent Loan plus accrued interest thereon which will be outstanding at the Closing Date.

Save for the foregoing, at the date of this Offering Circular, the Reinsurer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

### **Accountants' Report**

The following is the text of a report received by the directors of the Issuer from PricewaterhouseCoopers, the Reporting Accountants to the Reinsurer. The financial information contained therein does not comprise the Reinsurer's statutory accounts. No statutory accounts of the Reinsurer have been prepared or delivered to the Registrar of Companies in Ireland since incorporation. The Reinsurer's accounting reference date will be 30 November, with the first statutory accounts being drawn up to 30 November 2003.

"The Directors  
Gracechurch Life Finance p.l.c.  
Trinity House  
Charleston Road  
Ranelagh  
Dublin 6  
Ireland

Dear Sirs

**BARCLAYS REINSURANCE DUBLIN LIMITED ("THE REINSURER")**

### **Introduction**

We report on the financial information of the Reinsurer set out below. This financial information has been prepared for inclusion in the Offering Circular dated 31 October 2003 (the "**Offering Circular**") of Gracechurch Life Finance p.l.c. (the "**Issuer**").

The Reinsurer was incorporated as a company limited by shares under the name of Balinavack Byways Limited on 2 April 2003. The name of the Reinsurer was changed to Barclays Reinsurance Dublin Limited on 14 July 2003.

### **Basis of preparation**

The financial information set out below is based on the special purpose financial statements of the Reinsurer for the period ended 1 October 2003, to which no adjustment was considered necessary.

### **Responsibility**

Such special purpose financial statements are the responsibility of the directors of the Reinsurer who approved their issue.

The directors of the Issuer are responsible for the contents of the Offering Circular in which this report is included.

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

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the special purpose financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the special purpose financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Reinsurer, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Reinsurer as at 1 October 2003 and of its results for the period from 2 April 2003 to 1 October 2003.

**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD FROM 2 APRIL 2003 TO 1 OCTOBER 2003**

	<i>Notes</i>	<i>£000</i>
<b>Technical Account – Life Assurance Business</b>		
<b>Earned Premiums, net of reinsurance</b>		
Gross premiums written	2	2,137
<b>Investment Income</b>		
Income from investments	3	239
Unrealised losses on investments	3	(8,406)
		(8,167)
<b>Other income – movement in Present Value of In-Force Business</b>	4	752,509
<b>Change in technical provisions, net of reinsurance</b>		
Life assurance business provision, gross and net of reinsurance	9	(745,970)
<b>Net operating expenses</b>		0
<b>Investment expenses and charges</b>	3	(509)
<b>Tax attributable to the life assurance business</b>		0
		<hr/>
<b>Balance on the technical account – life assurance business</b>		–
		<hr/> <hr/>



**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD FROM 2 APRIL 2003 TO 1 OCTOBER 2003**

	<i>Notes</i>	<i>£000</i>
<b>Non-Technical Account</b>		
<b>Balance on the technical account – life assurance business</b>		0
Tax charge attributable to the balance on the life assurance business technical account		0
Shareholders' pre-tax profit from long term business		0
Other charges including value adjustments		0
<b>Profit on ordinary activities before tax</b>		0
Tax on ordinary activities	5	0
<b>Profit for the financial period</b>		0
Dividends		0
<b>Retained profit for the financial period</b>		0
<b>Retained profit at start of financial period</b>		0
<b>Retained profit at end of financial period</b>		0

All of the amounts above are in respect of continuing operations. The Reinsurer has no other recognised gains and losses other than those included in the profit and loss account above.

**BALANCE SHEET**  
AS AT 1 OCTOBER 2003

	<i>Notes</i>	<i>£000</i>
<b>Assets</b>		
<b>Investments</b>		
Other financial investments	6	743,594
<b>Present Value of In-force Business</b>	7	752,509
<b>Debtors</b>		
Debtors arising out of reinsurance operations:		
– Group undertakings		2,137
<b>Other assets</b>		
Cash at bank and in hand		7,200
<b>Prepayments and accrued income</b>		
Accrued interest and rent		239
<b>Total assets</b>		<u>1,505,679</u>
<b>Capital and reserves</b>		
Called up share capital	8	450
Non-distributable Capital Reserves	8	6,750
Profit and loss account		0
Equity Shareholders' funds		7,200
<b>Technical provisions</b>		
Life assurance business provision	9	745,970
<b>Provision for other risks and charges</b>	10	0
<b>Creditors</b>		
Other Creditors: Group undertakings	11	752,509
<b>Total Capital and reserves and liabilities</b>		<u>1,505,679</u>

## BARCLAYS REINSURANCE DUBLIN LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. Accounting policies

##### Basis of presentation and principal activities

Barclays Reinsurance Dublin Limited, a reinsurer newly incorporated in Ireland under the Irish Companies Acts, 1963 to 2001, (the “**Reinsurer**”) is a special purpose company whose primary purpose is to enter into a reinsurance agreement with Barclays Life Assurance Company Limited (previously Woolwich Life Assurance Company Limited). Under the terms of the reinsurance agreement, the Reinsurer has reinsured certain unit-linked life and pension technical provisions of Barclays Life Assurance Company Limited amounting to £752 million as at 26 September 2003. The Reinsurer will hold assets during the term of the reinsurance agreement, which correspond to the unit-linked technical provisions that are reinsured under the reinsurance agreement. The Reinsurer’s liability in respect of any category of reinsured unit-linked policies is equal to the value of the assets held by it that correspond to that category of policy. In addition, the Reinsurer has also reinsured the mortality and morbidity risks relating to the unit-linked life and pensions policies of Barclays Life Assurance Company Limited after taking account of all other reinsurance of such risks.

Under the terms of the reinsurance agreement, the Reinsurer will receive future Relevant Regulatory Surplus Amounts, as defined in the reinsurance agreement, arising in respect of substantially all of the existing book of business of Barclays Life Assurance Company Limited from 1 December 2002.

On 26 September 2003, the Reinsurer purchased assets of £752 million from Barclays Bank PLC, which correspond with the unit-linked technical provisions that are reinsured under the reinsurance agreement. Payment of the purchase consideration for these assets was initially deferred. However as of 1 October 2003, payment in full was made following the granting by Barclays Bank PLC of a contingent loan (“**the Bridging Contingent Loan**”) providing that repayment of interest and principal to Barclays Bank PLC in ordinary circumstances is limited to the amounts receivable under the reinsurance agreement with Barclays Life Assurance Company Limited. Such amounts are equivalent to Relevant Regulatory Surplus Amounts arising in Barclays Life Assurance Company Limited and will be used to recapture the reinsurance liabilities. In accordance with section 194 of the statement of recommended practice “Accounting for Insurance Business” issued by the Association of British Insurers (“**ABI SORP**”), the present value of the future Relevant Regulatory Surplus Amounts expected to arise from the in-force policies of Barclays Life Assurance Company Limited, and receivable by the reinsurer under the terms of the reinsurance agreement, has been recognised as an asset in the balance sheet as these future margins will be used to repay a loan to the Reinsurer, the repayment of which is contingent upon the emergence of these future margins.

In accordance with the structure outlined in the Offering Circular, it is intended that, provided finance is raised by the Issuer, the Bridging Contingent Loan from Barclays Bank PLC will be replaced by a contingent loan from the Issuer (“**the Reinsurer Loan**”). Repayment of interest and principal under the reinsurer loan will be contingent on the payments of Relevant Regulatory Surplus Amount receivable by the Reinsurer under the reinsurance agreement with Barclays’ Life Assurance Company Limited.

All set-up and operating expenses incurred by the Reinsurer since the date of incorporation have been borne by the Reinsurer’s parent, Barclays Life Assurance Company Limited.

The financial information has been prepared in accordance with accounting standards generally accepted in Ireland and with the ABI SORP. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The reinsurers’ results will be consolidated within Barclays PLC, which has adopted the provisions of Financial Reporting Standard 1 (Revised 1996), Cash Flow Statements (“**FRS1**”). Accordingly, the Reinsurer has elected to utilise the exemption provided by FRS1 and has not provided a Cash Flow Statement.

In accordance with Financial Reporting Standard 8, the Reinsurer has not disclosed details of transactions with entities that are part of the group or investees of the group qualifying as related parties, since 100% of its voting rights are controlled within the group and the Reinsurer is included as a subsidiary undertaking in the consolidated financial statements of its ultimate parent undertaking, Barclays PLC.

Since the date of incorporation, the Reinsurer has prepared no statutory financial statements for presentation to its members and has not declared or paid a dividend.

### **Historical cost convention**

The financial information has been prepared under the historical cost convention as modified by the valuation of investments as outlined in the accounting policy for investments noted below.

### **Life reinsurance contracts**

Life reinsurance business is accepted from cedants under contracts to transfer part or all of one or more of the following risks to the Reinsurer: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as reinsurance contracts.

### **Recognition of Relevant Regulatory Surplus Amounts due under life reinsurance contracts**

The payments equivalent to the Relevant Regulatory Surplus Amounts receivable by the reinsured under the reinsurance agreement with Barclays Life Assurance Company Limited are credited to the life technical account when the Reinsurer becomes entitled to receive such amounts under the terms of the reinsurance agreement. The entitlement to receive such amounts arises at each financial year-end of Barclays Life Assurance Company Limited.

### **Premiums**

Premiums written relate to reinsurance business incepted during the period including estimates of premiums due together with any difference between booked premiums for prior years and those previously accrued.

### **Investment income and unrealised gains on investments**

Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and related transaction expenses. Dividends are recorded on the date on which shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost. Unrealised investment gains and losses are calculated as the difference between the market value at the end of the period and the market value at the beginning of the period or purchase cost for assets acquired during the period. The total is then adjusted to take into account gains and losses recognised in prior accounting periods in respect of investments sold in the current period. All gains and losses on investments are dealt with through the profit and loss technical account.

### **Investments**

Listed investments are included in the balance sheet at their mid-market valuation. Unlisted investments are shown in the balance sheet at directors' valuation. Investment properties are valued at open market value as determined by independent professional advisors every year.

### **Life assurance business provision**

The life assurance business provision comprises the liability relating to a block of unit linked policies ceded by Barclays Life Assurance Company Limited and a provision in respect of mortality and morbidity risks ceded to the Reinsurer by Barclays Life Assurance Company Limited. In accordance with the terms of the reinsurance agreement, the liability in respect of the ceded unit-linked liabilities reflects the value of the matching assets held by the Reinsurer. The non-linked liabilities which arise from the underwriting of the mortality risks are calculated on a statutory solvency basis on the basis of information supplied by the cedant, Barclays Life Assurance Company Limited. The principal assumptions are contained in note 9.

## **Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Transactions are translated into sterling at exchange rates ruling at the date of the transaction and exchange differences are dealt with in that part of the profit and loss account in which the underlying transaction is reported.

## **Valuation of In-force business**

The present value of in-force business represents the discounted present value of Relevant Regulatory Surplus Amounts which are projected to emerge in the future from policies in-force in Barclays Life Assurance Company Limited from 1 December 2002. The Reinsurer will receive amounts equivalent to future Relevant Regulatory Surplus Amounts pursuant to the reinsurance agreement with Barclays Life Assurance Company Limited.

The value of the in-force business is the directors' assessment, taking account of the advice of qualified actuaries.

In estimating the net present value of the Relevant Regulatory Surplus Amounts inherent in the in-force policies, the calculations use assumed economic parameters (future investment returns, expense inflation and risk discount rate), taxation, mortality, persistency, expenses and the required levels of regulatory and solvency capital. Each of these assumptions is reviewed annually.

The returns on fixed interest investments are set to market yields at the period end. The returns on UK and overseas equities and property are set to fixed interest returns plus a margin to reflect the additional return expected on each of these investments. The calculations are based on the market value of assets at the period end. The expense inflation assumption is based on long-term expectations of both earnings and retail price inflation. The risk discount rate is set to market yields on Government Securities plus a margin to allow for the risk borne. The mortality, persistency and expense assumptions are chosen to represent best estimates of future experience. No credit is taken for favourable changes in experience unless it is reasonably certain to be delivered. The projected tax charges are based on current legislation. The principal assumptions are set out in note 7.

In accordance with paragraph 194 of the ABI SORP, the present value of the in-force business is recognised in the balance sheet as this surplus will be used to repay a loan of the Reinsurer, the repayment of which is contingent on the emergence of the Relevant Regulatory Surplus Amounts. If the present value of in-force business calculated at the balance sheet date is greater than the value of the Bridging Contingent Loan, the present value of in-force business recognised in the balance sheet is restricted to the value of the Bridging Contingent Loan in accordance with the ABI SORP.

## **Taxation**

Tax is provided on profits and income earned to date less reliefs.

Deferred tax is provided on all timing differences using the liability method, to the extent that is expected to become payable in the foreseeable future.

Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial information which arise because certain items of income and expenditure in the financial information are dealt with in different years for tax purposes.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

## **2. Gross premiums written**

These represent amounts due to the Reinsurer in respect of mortality and morbidity risks reinsured by the Reinsurer.

### 3. Investment return

	<i>Period ended 1 October 2003 £'000</i>
Technical Account	
Investment Income:	
Income from other investments	
– Listed	239
– Other	0
Gains on the realisation of investments	0
Investment expenses and charges	(509)
Unrealised losses on investments	(8,406)
	<hr/>
Net investment return	(8,676)
	<hr/> <hr/>

### 4. Other income (movement in present value of In-Force business)

Other income consists of the change in present value of Relevant Regulatory Surplus Amounts projected to arise on the In-Force policies of Barclays Life Assurance Company Limited which are payable to the Reinsurer under the terms of the reinsurance agreement with Barclays Life Assurance Company Limited (note 7).

### 5. Taxation

#### a) Analysis of current tax charge for the period

	<i>Period ended 1 October 2003 £'000</i>
Current tax:	
Irish corporation tax on profits for the period at 25%	0
Deferred tax:	
Origination and reversal of timing differences	0
	<hr/>
Current tax charge	0
	<hr/> <hr/>

#### b) Factors affecting tax charge for the period

The current tax charge for the year is the same as the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. However, this arises due to offsetting differences as explained below.

	<i>Period ended 1 October 2003 £'000</i>
Profit on ordinary activities before tax multiplied by the standard rate of Irish corporation tax for the year of 12.5%	–
Effects of	
Non taxable movement in present value of In-Force business – 25%	188,127
Unutilised tax losses carried forward – 25%	(188,127)
	<hr/>
Current tax charge for period	–
	<hr/> <hr/>

## 6. Other financial investments

	<i>Carrying Value 1 October 2003 £'000</i>	<i>Cost 1 October 2003 £'000</i>
Shares and other variable yield securities and units in unit trusts listed on a recognised stock exchange	637,546	645,926
Debt securities and other fixed income securities – listed on a recognised stock exchange	<u>106,048</u>	<u>106,074</u>
	<u><u>743,594</u></u>	<u><u>752,000</u></u>

Under the terms of the reinsurance agreement with Barclays Life Assurance Company Limited, the Reinsurer is required to hold a portfolio of assets of a type acceptable to Barclays Life Assurance Company Limited to match the unit linked technical liabilities reinsured under the reinsurance agreement. As at 1 October 2003 this portfolio amounted to £743,594,000. This portfolio of assets is subject to a charge in favour of Barclays Life Assurance Company Limited.

## 7. Present value of In-Force business

	<i>1 October 2003 £'000</i>
Present value of future Relevant Regulatory Surplus Amounts receivable under the reinsurance contract with Barclays Life Assurance Company Limited	752,509

This amount represents the value of the future Relevant Regulatory Surplus Amounts projected to emerge from all Reinsurer Pensions and Life Assurance business underwritten in the UK by Barclays Life Assurance Company Limited payable to the Reinsurer under the terms of the reinsurance agreements with Barclays Life Assurance Company Limited. The present value of the In-Force business recognised in the balance sheet of the Reinsurer has been restricted to the value of the Bridging Contingent Loan (note 11), the repayment of which is contingent upon the emergence of these future margins.

The present value of in-force business has been calculated using best estimates of future experience and economic conditions in force as at the balance sheet date to calculate future cash flows for all in-force policies and discounts these using the shareholders' risk discount rate.

The principal economic assumptions used in calculating this value are as follows:

	<i>As at 1 October 2003 %</i>
Risk discount rate	7.0
Gross UK equity returns for unit linked business (net of irrecoverable tax credit)	6.8
Gross property and overseas equities returns for unit linked business	7.5
Gross fixed interest returns for unit linked business	4.5
Renewal expenses inflation (including effect of fixed costs)	4.3

## 8. Called up share capital

	<i>1 October 2003 £'000</i>
Authorised:	
20,000,000 ordinary shares of £1 each	20,000
Total	<u>20,000</u>
Allotted and fully paid:	
450,000 ordinary shares of £1 each	450
Total	<u>450</u>

The Reinsurer was incorporated with an authorised share capital of £20,000,000 comprising 20,000,000 ordinary shares of £1 each. 450,000 ordinary shares were allotted for cash, and fully paid, on incorporation.

A non-refundable capital contribution of £6,750,000 was made by Barclays Life Assurance Company Limited on 19 September 2003. This has been credited to a non-distributable capital reserve.

## 9. Life assurance business provision

	<i>£'000</i>
Opening balance	0
Movement in the period	745,970
At 1 October 2003	<u>745,970</u>

The life assurance business provision comprises the liability relating to a block of unit-linked policies ceded by Barclays Life Assurance Company Limited and a provision in respect of mortality and morbidity risks ceded to the Reinsurer by Barclays Life Assurance Company Limited.

- i) In accordance with the terms of the reinsurance agreement, the liability in respect of the ceded unit-linked liabilities reflects the value of the matching assets held by the Reinsurer which are valued at the mid price.
- ii) The non-linked liabilities which arise from the underwriting of the mortality risks are calculated on a statutory solvency basis on the basis of information supplied by the cedant, Barclays Life Assurance Company Limited. The principal assumptions used in the calculation of the mortality and morbidity reserves are set out below:



## ASSUMPTIONS

	<i>As at</i>
	<i>1 October</i>
	<i>2003</i>
Class of Business	<i>Mortality Table</i>
Life	100% of A67/70 <sup>(5)*</sup>
Pensions	100% of A67/70 <sup>(5)*</sup>

\*With adjustment for AIDS

### 10. Provisions for other risks and charges

#### Deferred tax

The deferred tax balance as at 1 October 2003 comprises:

	<i>2003</i>
	<i>£'000</i>
	<i>Asset/ (Liability)</i>
Unutilised tax losses carried forward	188,127
Liability in respect of movement in value of in-force business	(188,127)
	<hr/>
	0
	<hr/> <hr/>

### 11. Other creditors

'Other creditors; group undertakings' comprises an amount of £752,508,552 representing the Reinsurers liability under a contingent loan received from Barclays Bank PLC.

Interest is payable on the loan at a rate of three month LIBOR plus 1.25% per annum. However, both the payment of interest and repayment of principal are limited to the Relevant Regulatory Surplus Amounts receivable by the Reinsurer under the reinsurance agreement with Barclays Life Assurance Company Limited.

The present value of the acquired in-force business, which is expected to finance the repayment of the loan of £752,508,552 has been recognised as an asset in the balance sheet (note 7).

### 12. Related party transactions

During the period, the Reinsurer invested in unit trusts managed by Barclays Global Investors Limited, a group company, and the value of the units held at 1 October 2003 was £42 million.

### 13. Charges over assets

All the assets of the Reinsurer are subject to charges in favour of a security trustee for the benefit of its existing creditors.

### 14. Ultimate holding company

Barclays Life Assurance Company Limited is the immediate holding company but does not prepare group accounts. The parent undertaking of the smallest group that presents group accounts is Barclays Bank PLC. The ultimate holding company and the parent company of the largest group that presents group accounts is Barclays PLC. Both companies are incorporated in Great Britain and registered in England and Wales. Barclays Bank PLC's and Barclays PLC's statutory accounts are available from the Group Corporate Secretariat, 54 Lombard Street, London EC3P 3AH.

PricewaterhouseCoopers  
Chartered Accountants  
Dublin

Date 31 October 2003

## BARCLAYS

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

Barclays Bank PLC and its subsidiary undertakings (taken together, the “**Group**”) is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is leading provider of co-ordinated global services to multinational corporations and financial institutions in the world’s main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured unsubordinated obligations of Barclays Bank PLC are rated A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch Ratings Limited and the long term unsecured unsubordinated obligations of Barclays Bank PLC are rated Aa1 by Moody’s, AA by S&P and AA+ by Fitch Ratings Limited.

As at 30 June 2003, the Group had total assets of £446,731 million, total net loans and advances of £291,830 million, total deposits of £291,317 million and equity shareholders funds of £16,064 million. The profit before taxation of the Group in respect of the six months ended 30 June 2003 was £1,963 million after charging net provisions for bad and doubtful debts of £652 million.

As at 31 December 2002, the Group had total assets of £403,066 million (31 December 2001: £356,612 million), total net loans and advances of £260,572 million (31 December 2001: £228,382 million), total deposits of £258,932 million (31 December 2001: £231,227 million) and equity shareholders funds of £15,205 million (31 December 2001: £14,485 million). The profit before taxation of the Group in respect of the year ended 31 December 2002 was £3,205 million (31 December 2001: £3,425 million) after charging net provisions for bad and doubtful debts of £1,484 million (31 December 2001: £1,149 million).

## ISSUER

### Introduction

The Issuer was incorporated in Ireland on 14 August 2003 (under registered number 374710) as a public company limited by shares under the Irish Companies Acts, 1963 to 2001 under the name Gracechurch Life Finance p.l.c. The registered office of the Issuer is at Trinity House, Charleston Road, Ranelagh, Dublin 6. The authorised and issued share capital of the Issuer is €40,000 divided into 40,000 ordinary shares of €1.00 each, all of which are issued and fully paid and 39,994 of which are held by SFM Corporate Services Limited (the “Share Trustee”) and the remaining 6 of which are held by nominees of behalf of the Share Trustee. The Share Trustee will hold the shares of the Issuer on a discretionary trust for a number of charitable objects.

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association and are, *inter alia*, to originate, purchase, take transfer of, invest in and acquire by any means whatsoever loans and other obligations involving the extension of credit to any persons, to raise or borrow money, and to secure any indebtedness or obligation of the Issuer by mortgage, charge, pledge, assignment, trust or any other means.

The Issuer has not engaged, since its incorporation, in any activity other than those incidental to its incorporation under the Irish Companies Acts, 1963 to 2001, the authorisation and issue of the Notes, the execution of the Subscription Agreement and of the Transaction Documents and matters referred to or contemplated in this Offering Circular and matters which are incidental or ancillary to the foregoing.

The Issuer will covenant to observe certain restrictions on its activities, which are detailed in Condition 3 of the Terms and Conditions of the Notes.

The Issuer’s company secretarial and other general administrative services will be provided by Structure Finance Management (Ireland) Limited having its registered office at Trinity House, Charleston Road, Ranelagh, Dublin 6, Ireland as corporate administrator under the Issuer Administration Agreement.

The auditors of the Issuer are PricewaterhouseCoopers of Wilton Place, Dublin 2, Ireland.

### Directors and Secretary

The directors of the Issuer and their respective addresses and other principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
John Walley	127 Holywell, Upper Kilmacud Road, Co Dublin, Ireland	Financial Services Consultant
Adrian Masterson	21 Temple Gardens, Dublin 6, Ireland	Financial Consultant
Jonathan Keighley	91 Cornwall Gardens, London, SW7 4AX, United Kingdom	Managing Director of Structured Finance Management Ltd

The secretary of the Issuer is Structured Finance Management (Ireland) Ltd.

The Issuer has no employees.

## Capitalisation and Indebtedness Statement

The capitalisation and indebtedness of the Issuer as at the date of this Offering Circular, adjusted for the Notes to be issued and for the Subordinated Loan and the Expenses Loan to be made on the Closing Date, is as follows:

### *Share capital*

#### **Authorised:**

€40,000 divided into 40,000 ordinary shares of €1.00 each

#### **Issued:**

40,000 ordinary shares of €1.00 each (fully paid) £28,337  
(converted into pounds sterling using the exchange rate as at 7 October 2003 of  
€1.4116 = £1.00

#### **Loan capital:**

£400,000,000 Floating Rate Secured Notes due 2013	£400,000,000
Subordinated Loan <sup>1</sup>	£356,954,189
Expenses Loan	£7,400,000
	<hr/>
Total capitalisation and indebtedness:	£764,382,526
	<hr/> <hr/>

1 On the Closing Date, the proceeds of the Subordinated Loan and the Notes will be lent by the Issuer to the Reinsurer pursuant to the Reinsurer Loan Agreement to facilitate the repayment of the Bridging Contingent Loan and the accrued interest thereon.

Save for the foregoing, at the date of this Offering Circular, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## Accountants' Report

The following is the text of a report received by the directors of the Issuer from PricewaterhouseCoopers, the Reporting Accountants to the Issuer. The balance sheet contained therein does not comprise the Issuer's statutory accounts. No statutory accounts of the Issuer have been prepared or delivered to the Registrar of Companies in Ireland since incorporation. The Issuer's accounting reference date will be 30 November, with the first statutory accounts being drawn up to 30 November 2003.

"The Directors  
Gracechurch Life Finance p.l.c.  
Trinity House  
Charleston Road  
Ranelagh  
Dublin 6

31 October 2003

Dear Sirs

**Gracechurch Life Finance p.l.c.**

## Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular dated 31 October 2003 (the "Offering Circular") of Gracechurch Life Finance p.l.c. (the "Company").

The Company was incorporated as a public company limited by shares on 14 August 2003. The Company has not yet commenced to trade, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

## Basis of preparation

The financial information set out below is based on the financial records of the Company, to which no adjustment was considered necessary.

## Responsibility

The financial records are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Offering Circular in which this report is included.

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

## Basis of opinion

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

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

## Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at the date stated.

## Financial information

The balance sheet of the Company at 7 October 2003 is as follows:

	<i>Notes</i>	<i>£</i>
<b>Current assets</b>		
Cash at bank and in hand		28,337
<b>Net assets</b>		<u>28,337</u>
<b>Capital and Reserves</b>		
Called up share capital	3	28,337
Equity Shareholders' Funds		<u>28,337</u>

## Notes to the financial information

### 1. *Accounting policies*

The financial information has been prepared in accordance with the historical cost convention and in accordance with accounting standards generally accepted in Ireland. Accounting standards generally accepted in Ireland in preparing financial information giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

### 2. *Trading activity*

The Company did not trade during the period from date of incorporation to 7 October 2003 nor did it receive any income, incur any expenses or pay any dividends. Consequently, no profit and loss account has been prepared.

3. *Share capital*

The Company was incorporated with an authorised share capital of €40,000, comprising 40,000 ordinary shares of €1 each. The Company was incorporated with 7 Subscriber Shares and 39,993 ordinary shares were allotted for cash, and fully paid, on 7 October 2003. The Share Capital was converted into pounds sterling using the exchange rate as at 7 October 2003 of €1.4116 = £1.00, being the date the Share Capital was paid up.

4. *Ultimate holding company*

The immediate and ultimate holding company is SFM Corporate Services Limited. The Issuer is consolidated into the Barclays Group for accounting purposes but the Issuer is not a member of the Group.

5. *Post balance sheet events*

On 31 October 2003 the Company published the Offering Circular and entered into the Subscription Agreement.

Yours faithfully

PricewaterhouseCoopers  
Chartered Accountants  
Dublin

## AMBAC ASSURANCE UK LIMITED

### General

Ambac is a direct wholly-owned subsidiary of Ambac Assurance Corporation, (“**Ambac Assurance**”), a monoline insurance company incorporated under the laws of the State of Wisconsin, U.S.A. Ambac was incorporated with limited liability in England on 11 September 1996 pursuant to the Companies Act 1985 with registered number 3248674. Ambac became authorised to transact a credit, suretyship and financial loss insurance business in the United Kingdom on 8 February 1997. Ambac is also licensed to offer insurance services into twelve other European countries (including Ireland) on a freedom of services basis. Ambac’s registered office is located at Hasilwood House, 60 Bishopsgate, London EC2N 4BE, United Kingdom. Ambac has no subsidiaries.

### Ratings

Ambac has obtained “AAA/Aaa/AAA” financial strength rating from S&P, Moody’s, and Fitch, Inc.

### Information

Copies of the annual regulatory return filed by Ambac with the Financial Services Authority (“FSA”) and the annual financial statements filed with the Registrar of Companies in the United Kingdom are available upon request to Ambac at its registered office. Copies of the statutory quarterly and annual statements filed by Ambac Assurance in the United States are available upon request to Ambac Assurance at its principal place of business, One State Street Plaza, New York, NY 10004, USA.

### Recent Developments

Since 30 June 2003, the date as at which its latest interim unaudited accounts were prepared, Ambac has continued to conduct its insurance business in the United Kingdom and the other European countries into which it is licensed to offer insurance services. There has been no material adverse change in its financial or trading position since 30 June 2003.

### Directors and Officers of Ambac

The following sets forth a list of the directors of Ambac by name and principal activity:

<i>Name</i>	<i>Function</i>	<i>Principal Activities</i>
Robert John Genader	Executive	President and Chief Operating Officer, Ambac Assurance Corporation and Ambac Financial Group Inc.
John Wyatt Uhlein III	Executive	Managing Director, Ambac Assurance Corporation
Martin Roberts	Non-Executive	Independent Consultant Director, Financial Management Assurance Consultants Ltd.
David William Wallis	Executive	Managing Director, Ambac Assurance Corporation
David Ronald Larwood	Executive	Independent Consultant (Part-time) Director, The Underwriter Insurance Co. Ltd. Director, The Underwriter Management Services Co. Ltd. Director, Probroker Company Limited Director, Stonebridge International Insurance Co. Ltd.

The business address of Messrs Genader, Uhlein and Wallis is One State Street Plaza, New York, NY 10004, U.S.A. The business address of Mr Roberts is 1 Westbury Close, Highcliffe, Christchurch, Dorset BH23 4PE, United Kingdom. The business address of Mr. Larwood is Hasilwood House, 60 Bishopsgate, London EC2N 4BE, United Kingdom.

## Insurance Regulation

Ambac is subject to regulation by the FSA in the conduct of its insurance business in the United Kingdom. Under United Kingdom regulations, Ambac is subject to certain limits and requirements, including the maintenance of a minimum margin of solvency and the establishment of loss and unearned premium reserves. Other FSA requirements include regulation of transactions with connected persons and investments made by Ambac.

## Financial Information

The audited accounts of Ambac for the year ended 31 December 2002 are annexed at the Appendix hereto. The unaudited interim financial statements for the six months ended 30 June 2003 are also annexed at the Appendix hereto.

## Capitalisation and Indebtedness

The following table sets forth the unaudited capitalisation and indebtedness of Ambac prepared in accordance with the provisions of Section 225 of, and Schedule 9A to, the Companies Act 1985, and in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers as at 30 June 2003.

	<i>As at</i> <i>30 June 2003</i> (£)
Short-term debt <sup>(1)</sup>	0
Long-term debt <sup>(1)</sup>	0
Total Issued and Paid up Share Capital <sup>(2)</sup>	17,000,000
Profit and Loss Account	3,166,000
Total Shareholders' Equity	<u>20,166,000</u>

### Notes

- (1) On 30 June 2003 Ambac did not have any reserves, loan capital outstanding or created but unissued, term loans or any other borrowings or indebtedness in the nature of a borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations or guarantees or contingent liabilities.
- (2) The issued and paid up share capital of Ambac comprises 17,000,000 ordinary shares of £1 each. The authorised share capital of Ambac was £30 million and was increased to £60 million by a resolution dated 3 September 2003.

There has been no material change in the authorised and issued share capital, capitalisation or indebtedness (including guarantees or contingent liabilities) of Ambac since 30 June 2003 (save as indicated in footnote (2) above).

## Auditors

Ambac's auditors are KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB.

Their reports on the audited accounts of Ambac for the year ended 31 December 2002 are included in "*Financial Statements of Ambac for the year ended 31 December 2002*" below. Their reports on the interim unaudited accounts of Ambac for the six months ended 30 June 2003 are included in "*Interim Financial Statements of Ambac for the six months ended 30 June 2003*" below.



## AMBAC ASSURANCE CORPORATION

### General

Ambac Assurance Corporation (“**Ambac Assurance**”) is a leading financial guarantee insurance company that is primarily engaged in insuring municipal and structured finance obligations and is the successor of the oldest municipal bond insurance company, which wrote the first municipal bond insurance policy in 1971. Ambac Assurance was incorporated in the State of Wisconsin, U.S.A. with limited liability on 25 February 1970. Ambac Assurance maintains its principal executive offices at One State Street Plaza, New York, NY 10004, U.S.A. Ambac Assurance is a wholly-owned subsidiary of Ambac Financial Group, Inc., a holding company that provides financial guarantee insurance and financial services to both public and private clients around the world.

Financial guarantee insurance written by Ambac Assurance in both the primary and secondary markets guarantees payment when due of the principal of and interest on the obligation insured. In the case of a default on the insured obligation, payments under the insurance policy may not be accelerated by the policyholder without Ambac Assurance’s consent. Ambac Assurance primarily insures newly issued obligations and seeks to maintain a diversified insurance portfolio which spreads its risk across a number of criteria, including issue size, type of bond, geographic area and issuer. At 30 June 2003, Ambac Assurance’s net par outstanding and net insurance in force was US\$ 410.5 billion and US\$ 594.8 billion, respectively.

Ambac Assurance has been assigned triple-A financial strength ratings by Moody’s, S&P, Fitch, Inc. and Rating and Investment Information, Inc. These ratings are an essential part of Ambac Assurance’s ability to provide credit enhancement. See “*Rating Agencies*” below.

Ambac Assurance has eight wholly-owned subsidiaries, Ambac Assurance UK Limited, a UK licensed insurance company, Ambac Credit Products, LLC, Ambac Capital Services, LLC, and Ambac Credit Products Limited, derivatives companies, Ambac Private Holdings, LLC, a company that owns and invests in securities, Ambac Japan Co., Ltd., a Japanese services company which markets financial guarantees in Japan, and Connie Lee Holdings, Inc., a holding company for Connie Lee Insurance Company (“**Connie Lee**”). Ambac Assurance acquired Connie Lee in December 1997. Connie Lee, a triple-A rated financial guarantee insurance company, which guaranteed bonds issued primarily for college and hospital infrastructure projects, is not expected to write any new business.

### Financial guarantee industry overview

Financial guarantee insurance generally guarantees to the holder of the underlying obligation the timely payment of principal of and interest on such obligation in accordance with such obligation’s original payment schedule. Accordingly, in the case of an issuer default on the insured obligation, payments under the insurance policy may not be accelerated by the policyholder without Ambac Assurance’s consent.

Financial guarantee insurance provides a form of credit enhancement that benefits both the issuer and the investor. Issuers benefit because their securities are generally sold with a higher credit rating than securities sold on a stand-alone basis, resulting in interest cost savings and greater marketability. In addition, for complex financings and obligations of issuers that are not well known by investors, insured obligations receive greater market acceptance than uninsured obligations. Investor’s benefit from greater marketability and a reduction in the risk of loss associated with an issuer’s default.

### Structured finance obligations

Insurance on structured finance or asset-backed obligations is typically issued in connection with transactions in which the securities being issued are secured by or payable from a specific pool of assets having an ascertainable cash flow or market value and held by a special purpose issuing entity. While most structured finance obligations are secured by or represent an interest in pools of assets, monoline financial guarantors have also insured asset-backed obligations secured by one of a few assets.

## **Municipal obligations**

Municipal obligations and municipal bonds include taxable and tax-exempt bonds, notes and other evidences of indebtedness issued by states, political subdivisions (cities, counties, towns and villages), water, sewer and other utility districts, higher educational institutions, hospitals, transportation and housing authorities and other similar agencies. Municipal obligations are supported by the taxing authority of the issuer or the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services. References herein to "**municipal bonds**" and "**municipal obligations**" are to debt obligations of states and other political subdivisions in the United States.

## **International Finance Obligations**

Outside of the United States, structured and asset-backed issuers, utilities, sovereign and sub-sovereign issuers, and other issuers are increasingly using financial guarantee products, particularly in markets throughout Western Europe. A number of important trends in international markets have contributed to this expansion. In the United Kingdom, Australia and elsewhere, ongoing privatisation efforts have shifted the burden of funding from the government to the public and private capital markets, where investors may seek the security of financial guarantee products. In Europe, Australia, Japan and the emerging markets, there is also growing interest in asset-backed securitisations.

## **Insurance Written**

Ambac Assurance sells most of its insurance in the new issue U.S. bond market. During the six months ended 30 June 2003, Ambac Assurance insured gross par amount of \$63.4 billion, of which \$21.9 billion, or 35 per cent., was related to new issue and secondary market policies on municipal bonds. Approximately \$29.3 billion, or 46 per cent., of gross par written during the six months ended 30 June 2003 represented domestic (U.S.) structured finance exposure. Approximately \$12.2 billion, or 19 per cent., of gross par written during the six months ended 30 June 2003 represented international exposure.

## **Rating Agencies**

Moody's, S&P, Fitch, Inc., and Rating and Investment Information Inc. periodically review the business and financial condition of Ambac Assurance and other companies providing financial guarantee insurance. Rating agency reviews focus on the insurer's underwriting policies and procedures and the quality of the obligations insured. The rating agencies frequently perform assessments of the credits insured by Ambac Assurance to confirm that Ambac Assurance continues to meet the capital allocation criteria considered necessary by the particular rating agency to maintain Ambac Assurance's triple-A financial strength ratings. A rating by Moody's, S&P, Fitch or Rating and Investment Information, Inc., however, is not a "market rating" or a recommendation to buy, hold or sell any security. Ambac Assurance's ability to attract new business, or to compete with other triple-A rated financial guarantors, and its results of operations and financial condition, would be materially adversely affected by any reduction in its financial strength ratings.

## **Reinsurance**

U.S. State insurance laws and regulations (as well as the rating agencies) impose minimum capital requirements on financial guarantee insurance companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. Such companies can use reinsurance to diversify risk, increase underwriting capacity, reduce additional capital needs, stabilise shareholder returns and strengthen financial ratios. See "*Insurance Regulatory Matters*" below.

As a primary insurer, Ambac Assurance is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations under the various reinsurance agreements with Ambac Assurance. Ambac Assurance has surplus share treaties with various reinsurers, which provide for a program of reinsurance with respect to large risks underwritten by Ambac Assurance in the public finance and structured finance sectors.

Ambac Assurance has entered into municipal bond and structured and international finance facultative reinsurance agreements. These agreements allow Ambac Assurance to reduce its large risks, to manage its portfolio of insurance by bond type and geographic distribution, and to provide

additional capacity for frequent municipal bond issuers. Under these agreements, portions of Ambac Assurance's interests and liabilities are ceded on an issue-by-issue basis. A ceding commission is withheld to defray Ambac Assurance's underwriting expenses.

As of 30 June 2003, Ambac Assurance had retained 88 per cent. of its gross insurance in force of \$674.6 billion and had ceded approximately 12 per cent. to its treaty and facultative reinsurers.

## **Insurance Regulatory Matters**

### **General Law**

Ambac Assurance is licensed to do business as an insurance company in all 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the territory of Guam and the U.S. Virgin Islands. It is subject to the insurance laws and regulations of the State of Wisconsin, its state of incorporation, and the insurance laws and regulations of other states in which it is licensed to transact business, particularly the State of New York, which has a comprehensive financial guarantee insurance law. These laws and regulations, as well as the level of supervisory authority that may be exercised by the various state insurance departments, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, meet certain financial tests, including single risk limits and minimum policyholders' surplus and reserve levels, file certain reports with regulatory authorities, including information concerning their capital structure, ownership and financial condition, and require prior approval of certain changes in control of domestic insurance companies and their direct and indirect parents and the payment of certain dividends and distributions. In addition, these laws and regulations require approval of certain intercorporate transfers of assets and certain transactions between insurance companies and their direct and indirect parents and affiliates, and generally require that all such transactions have terms no less favourable than terms that would result from transactions between parties negotiating at arm's length.

Ambac Assurance is required to file quarterly and annual statutory financial statements in each jurisdiction in which it is licensed, and is subject to single and aggregate risk limits and other statutory restrictions concerning the types and quality of investments and the filing and use of policy forms and premium rates. Additionally, Ambac Assurance's accounts and operations are subject to periodic examination by the Wisconsin Insurance Commissioner and other state insurance regulatory authorities.

### **Investments and Investment Policy**

As of 30 June 2003, Ambac Assurance's investment portfolio had an aggregate fair value of \$7.3 billion and an aggregate amortised cost of \$6.8 billion. The investment policy established by the board of directors for Ambac Assurance's investments is designed to achieve diversification of the portfolio and generally to preclude investments in obligations insured by Ambac Assurance. Ambac Assurance's investment policy only permits investment in investment grade fixed-income securities, consistent with its goal to achieve the highest after-tax, long-term return.

### **Capitalisation**

The following table sets forth Ambac Assurance's consolidated capitalisation as of 31 December 2001, 31 December 2002 and 30 June 2003, respectively, on the basis of accounting principles generally accepted in the United States of America.

	31 December 2001	31 December 2002	30 June 2003 (unaudited)
	<i>(U.S. Dollars in Millions)</i>	<i>(U.S. Dollars in Millions)</i>	<i>(U.S. Dollars in Millions)</i>
Unearned Premiums	\$1,790	\$2,137	\$2,381
Other liabilities	908	1,865	2,232
Long term debt	64	60	28
Short term debt	0	51	29
Total liabilities	<u>2,762</u>	<u>4,113</u>	<u>4,670</u>
Stockholders' Equity			
Preferred stock, par value \$1,000 per share Authorised shares – 285,000; issued and outstanding – none	—	—	—
Common Stock, par value \$2.50 per share; Authorised shares – 40,000,000; issued and outstanding shares – 32,800,000	82	82	82
Additional paid-in capital	928	920	1,003
Accumulated other comprehensive income (loss)	81	231	309
Retained earnings	2,386	2,849	3,121
Total stockholders' equity	<u>3,477</u>	<u>4,082</u>	<u>4,515</u>
Total liabilities and stockholders' equity	<u><u>\$6,239</u></u>	<u><u>\$8,195</u></u>	<u><u>\$9,185</u></u>

Note:

There has been no material change in the capitalisation of Ambac Assurance and its subsidiaries from 30 June 2003 to the date of this Offering Circular.

### Directors of Ambac Assurance

The following information for each director of Ambac Assurance is set forth below – name, business or home address and description of principal activities performed outside the Ambac Financial Group, Inc. group but which are significant with respect to the Ambac Financial Group, Inc. group:

<i>Name</i>	<i>Home or Business Address</i>	<i>Principal Activities</i>
Phillip B. Lassiter	Ambac Financial Group, Inc. One State Street Plaza New York, NY 10004	Chairman of the Board & Chief Executive Officer of Ambac Financial Group, Inc. and Ambac Assurance; Director of Diebold, Inc., Certegy Inc. and Worldinsure Limited.
Michael A. Callen	Avalon Argus & Associates, LLC 10901 Riverwood Drive Potomac, MD 20854	Non-executive director; President of Avalon Argus & Associates, LLC since April 1996; Director of Intervest Corporation of New York and Intervest Bancshares Corporation.
Renso L. Caporali	9376 Hunting Valley South Clarence, NY 14031	Non-executive director; Director of Bank of Akron.
Jill M. Considine	The Depository Trust & Clearing Corporation 55 Water Street New York, NY 10041	Non-executive director; Chairman and Chief Executive Officer of The Depository Trust Company and The Depository Trust & Clearing Corporation; Director of the Atlantic Mutual Insurance Companies and The Interpublic Group of Companies, Inc.
Richard Dulude	P.O. Box 537 1106 Lake Avenue	Non-executive director; Director of Landec Corporation Inc.

<i>Name</i>	<i>Home or Business Address</i>	<i>Principal Activities</i>
Robert J. Genader	George Mills, NH 03751 Ambac Financial Group, Inc. One State Street Plaza New York, NY 10004	President and Chief Operating Officer of Ambac Financial Group, Inc. and Ambac Assurance.
W. Grant Gregory	Gregory & Hoenemeyer, Inc. Two Greenwich Plaza Greenwich, CT 06830	Non-executive director; Chairman of Gregory Hoenemeyer, Inc., Director of Double Click Inc.
Laura S. Unger	3308 N Street, N.W. Washington, D.C. 20007	Non-executive director; former Acting Chairperson of the U.S. Securities and Exchange Commission.

## RELATIONSHIP BETWEEN AMBAC ASSURANCE UK LIMITED AND AMBAC ASSURANCE CORPORATION

### General

Ambac is a direct wholly-owned subsidiary of Ambac Assurance. Ambac does not have any subsidiaries.

### Net Worth Maintenance Agreement

Ambac and Ambac Assurance have entered into a net worth maintenance agreement dated as of 1 January 1997 (the “**Net Worth Maintenance Agreement**”), which is governed by the laws of the State of Wisconsin. Pursuant to the Net Worth Maintenance Agreement, Ambac Assurance is required to cause Ambac to maintain free assets of £10,500,000 or such greater amount as may be required by FSA provided that no contribution can be required to be made which would have the effect of reducing Ambac Assurance’s financial strength ratings from S&P, Moody’s or Fitch, Inc.

### Ambac Reinsurance Agreement

The obligations of Ambac under the Financial Guarantee will be reinsured with Ambac Assurance pursuant to a reinsurance agreement dated as of 1 January 1997 (the “**Ambac Reinsurance Agreement**”) which is governed by the laws of the State of New York.

Pursuant to the Ambac Reinsurance Agreement, a substantial portion of all liabilities on financial guarantees issued by Ambac are reinsured by Ambac Assurance. Such reinsurance is used as a risk management device and to comply with certain statutory and rating agency requirements; it does not alter or limit the obligations of Ambac under any financial guarantee.

In addition, the Ambac Reinsurance Agreement also contains “**stop loss**” provisions that require Ambac Assurance to make payments to Ambac if Ambac’s losses exceed a certain amount. Under these provisions Ambac Assurance will reimburse Ambac for the amount by which annual net losses incurred by Ambac (paid losses plus any increase in loss reserves, net of reinsurance) exceed £500,000.

**Noteholders should note that the Net Worth Maintenance Agreement and the Ambac Reinsurance Agreement (together, the “Ambac Assurance Agreements”) are entered into for the benefit of Ambac and are not, and should not be regarded as, guarantees by Ambac Assurance of the payment of any indebtedness, liability or obligations of the Issuer or Ambac including the Notes or the Financial Guarantee.**

Information in this Offering Circular concerning Ambac Assurance is provided for background purposes only in view of the importance to Ambac of the Ambac Assurance Agreements. It does not imply that the Ambac Assurance Agreements are guarantees for the benefit of Noteholders. Payment of principal of and interest on the Notes will be guaranteed by Ambac pursuant to the Financial Guarantee and will not be additionally guaranteed by Ambac Assurance.

Noteholders should note that Ambac’s ability to perform its obligations under the Financial Guarantee and to maintain its current rating substantially depends on the ability of Ambac Assurance to perform its obligations under the Ambac Assurance Agreements.

## FORM OF AMBAC FINANCIAL GUARANTEE

Financial Guarantee Number UK [●]  
Issued by:

Ambac Assurance UK Limited  
Hasilwood House  
60 Bishopsgate  
London EC2N 4BE  
Telephone: 020 7786 4300  
Fax: 020 7786 4343  
Registered in England  
Registered Number 3248674

### Effective Date of this Financial Guarantee: 12 November 2003

Ambac Assurance UK Limited (“Ambac”), in consideration of the payment of the Guarantee Fee and subject to the terms of this Financial Guarantee, hereby agrees unconditionally and irrevocably to pay to the Beneficiary for the benefit of the Holders of the Guaranteed Obligations that portion of the Guaranteed Amounts which have become Due for Payment but are unpaid by reason of Nonpayment.

### Payments

Save in respect of Accelerated Payments (which may be made at the election of Ambac only), Ambac will make payments which are due under this Financial Guarantee to the Beneficiary by the later of (a) the second Business Day following Receipt by Ambac of a Notice of Demand from the Beneficiary specifying that a Nonpayment event will or has occurred or (b) the applicable Scheduled Payment Date, or in either case, if that is not a Business Day, on the next succeeding Business Day.

Payments due under this Financial Guarantee will be satisfied by payment in full by Ambac to the Account. Payment in full to the Account shall discharge the obligations of Ambac under this Financial Guarantee to the extent of such payment, whether or not such payment is properly applied by or on behalf of the Beneficiary or any Paying Agent. Once payment by Ambac of an amount in respect of a Guaranteed Obligation (whether on a Scheduled Payment Date or on an Accelerated Payment Date) has been made to the Account, Ambac shall have no further obligations under this Financial Guarantee in respect of such Guaranteed Obligation.

The obligations of Ambac under this Financial Guarantee shall not be affected by any redenomination of the Notes into euro pursuant to Condition 7(k) (*Change in Currency*) save that following such redenomination payments hereunder shall be made in euro.

### Insolvency

In the event the Beneficiary has notice that any payments of Guaranteed Amounts which have become Due for Payment and which have been made to the Beneficiary or to any Holders by or on behalf of the Issuer have been declared (in whole or in part) a Preference and recovered from the Beneficiary or such Holders pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction, the Beneficiary or such Holders (as applicable) will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available from any source.

### Subrogation

Upon Ambac making any payment to the Account and upon receipt by the Beneficiary of such payment pursuant to this Financial Guarantee, Ambac shall be fully and automatically subrogated pursuant to applicable law to all Holders' rights to payment of the Guaranteed Amounts and/or any Accelerated Payments (as the case may be) (including, without limitation, any rights and benefits attached to and any security granted at law by contract or under the Issuer Deed of Charge or otherwise for the Guaranteed Obligations) to the extent of any payments made by Ambac pursuant to this Financial Guarantee.

## **UK Withholding Tax**

All payments by Ambac under this Financial Guarantee shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision or taxing authority therein or thereof unless such withholding or deduction is required by law. If any withholding or deduction is so required by law, Ambac shall pay such amounts (“**Additional Amounts**”) for the account of each Holder in respect of which a withholding or deduction has been made as may be necessary in order that the net amounts receivable by the relevant Holder after such withholding or deduction shall equal the Guaranteed Amounts which would have been receivable by such Holder from the Issuer in respect of the Guaranteed Obligations in the absence of such withholding or deduction, provided, however, that no such Additional Amounts shall be payable in respect of any Guaranteed Obligations which Ambac has reasonably determined will result from any payment of Guaranteed Amounts:

- (a) to or in respect of Holders who are liable or subject to such withholding or deduction by reason of its having some connection with the United Kingdom other than the mere holding of the Guaranteed Obligations;
- (b) to or in respect of Holders who would not be subject to such withholding or deduction if it had made a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (c) to or in respect of Holders who have presented such Guaranteed Obligations for payment more than 30 days after the Relevant Date except to the extent that the relevant Holders would have been entitled to such Additional Amounts if it had presented the Guaranteed Obligations for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual Holder and is required to be made pursuant to (1) any European Union Directive on the taxation of saving implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 and/or (2) any approved by the EU Council of Economic and Finance Ministers on 13 December 2001, in connection with such Directive and/or (3) any law implementing or complying with, or introduced in order to conform to, such Directive.

## **Scope of Guarantee**

This Financial Guarantee is not cancellable by Ambac for any reason, including the failure of Ambac to receive payment of any Guarantee Fee due in respect of this Financial Guarantee. The Guarantee Fee is not refundable for any reason. This Financial Guarantee does not guarantee any accelerated payment (whether by way of prepayment of the Guaranteed Obligation or otherwise), other than at the sole option of Ambac as specified below, nor provide protection by way of guarantee or otherwise against any risk (including, without limitation, the risk of failure of the Beneficiary or any Paying Agent to make any payment due to Holders of any Guaranteed Amounts) other than Nonpayment.

## **Accelerated Payments**

There shall be no accelerated payment of any Guaranteed Amount due under this Financial Guarantee unless Ambac elects to make an Accelerated Payment at its sole option. If Ambac elects to make an Accelerated Payment, it shall, not later than two (2) Business Days prior to the date on which it shall effect such payment, deliver to the Issuer and the Beneficiary, by fax or letter delivered by registered post or courier, a written notice duly executed by an authorised officer of Ambac, notifying the Issuer and the Beneficiary of the exercise of (1) its option hereunder and (2) the proposed Accelerated Payment Date for such Accelerated Payment. Such notice shall be deemed to have been delivered when (a) in the case of a letter, delivered to the relevant addressee; or (b) in the case of a fax, when transmission of such fax communication has been received illegible form and receipt has been confirmed.

## **Waiver of Defences**

The obligations of Ambac under this Financial Guarantee shall not be affected by any lack of validity or enforceability or any modification or any amendment to the Guaranteed Obligations or the Trust Deed or the granting of any time, indulgence or concession by any party to the Issuer.



Ambac acknowledges that there is no duty of disclosure by the Beneficiary under this Financial Guarantee but nonetheless, to the fullest extent permitted by applicable law, hereby waives and agrees not to assert any and all rights (whether by counterclaim, rescission, set-off or otherwise), equities and defences (including, without limitation (a) any defence of fraud by any Person (other than the Beneficiary itself) and (b) any defence based on misrepresentation, breach of warranty or non-disclosure of information by any Person), to the extent such rights, equities and defences may be available to Ambac to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions hereof, but without prejudice to any subsequent recourse Ambac may have to or against any Person.

## Definitions

For all purposes of this Financial Guarantee, the following terms shall have the following meanings:

**“Accelerated Payment”** means any payment of any Guaranteed Obligation in advance of the Scheduled Payment Date for such Guaranteed Obligation (whether by way of prepayment of any Guaranteed Obligation or otherwise) made by Ambac to the Account at Ambac’s sole option and in accordance with this Financial Guarantee;

**“Accelerated Payment Date”** means any date on which Ambac makes an Accelerated Payment;

**“Account”** means in respect of any payment made by Ambac on:

- (a) a Scheduled Payment Date, the account specified in the relevant Notice of Demand; and
- (b) an Accelerated Payment Date, the account notified by the Beneficiary to Ambac in writing at least one Business Day prior to the Accelerated Payment Date;

**“Affected Guaranteed Obligations”** means those Guaranteed Obligations (identified in the relevant Notice of Demand) in respect of which a Nonpayment has occurred or will occur, as specified in the relevant Notice of Demand;

**“Beneficiary”** means the Trustee;

**“Business Day”** means any day (other than a Saturday or Sunday) on which commercial banks settle payments and are open for general business in London;

**“Conditions”** means the terms and conditions of the Notes as set out in Schedule 6 of the Trust Deed as at the date of this Financial Guarantee or as amended with the consent of Ambac (each being a **“Condition”**);

**“Due for Payment”** means, in relation to any Guaranteed Amounts, that the Scheduled Payment Date for such amount has been reached. For the avoidance of doubt, **“Due for Payment”** does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the Guaranteed Obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise;

**“Guaranteed Amounts”** means, with respect to any Scheduled Payment Date, the sum of (i) Scheduled Interest payable (disregarding, for this purpose, the limited recourse nature of the relevant Guaranteed Obligations) on such Scheduled Payment Date and (ii) Ultimate Principal payable (disregarding, for this purpose, the limited recourse nature of the relevant Guaranteed Obligations) on such Scheduled Payment Date but excluding any Scheduled Interest and Ultimate Principal in respect of which Ambac has made an Accelerated Payment on an Accelerated Payment Date falling prior to such Scheduled Payment Date;

**“Guarantee Fee”** means the guarantee fee(s) payable by the Issuer in consideration of the issue of this Financial Guarantee, as specified in the Guarantee Fee Letter;

**“Guarantee Fee Letter”** means the letter (described on its face as **“Guarantee Fee Letter”**) dated on or about the date of this Financial Guarantee between Ambac and the Issuer;

**“Guaranteed Obligations”** means the Notes, and shall include, where the context so requires, the coupons relating to the Notes but shall in all cases exclude all Policy Excluded Amounts;

**“Holders”** means (i) if and to the extent that the Guaranteed Obligations are represented by definitive notes held outside of Euroclear Bank S.A./N.V., as operator of the Euroclear System (**“Euroclear”**) and/or Clearstream Banking, société anonyme (together with Euroclear and any additional or alternative clearing systems nominated by the Issuer and/or the Note Trustee and approved by Ambac, the **“Clearing Systems”** and each, a **“Clearing System”**), the bearers thereof; and (ii) if and to the extent the Guaranteed Obligations are represented by a temporary or

permanent global note or definitive notes held in a Clearing System, the Persons for the first time being shown in the records of the relevant Clearing System (except for a Clearing System in its capacity as an accountholder of another clearing system) as being holders of Guaranteed Obligations (each an “**Accountholder**”) in which regard any certificate or other document issued by the relevant Clearing System as to the principal amount of the Guaranteed Obligations standing to the account of any Accountholder shall be conclusive and binding for all purposes hereof;

“**Insolvency Law**” means any applicable United Kingdom bankruptcy or insolvency law, including the Enterprise Act 2002, the Insolvency Act 2000, the Insolvency Act 1986, the Insolvency Rules 1986, the Insolvency Regulations 1994 or any legislation passed in substitution or replacement thereof or amendment thereof and any applicable Irish bankruptcy or insolvency law, including the Companies Acts, 1963 to 2001 (as amended), the Bankruptcy Act, 1988 (as amended) or any legislation passed in substitution or replacement thereof or amendment thereto;

“**Issuer**” means Gracechurch Life Finance p.l.c. (a company incorporated in Ireland with limited liability under registered number 374710);

“**Nonpayment**” means, as of any Scheduled Payment Date, the failure of the Issuer to have paid any Guaranteed Amounts which are due on such Scheduled Payment Date (or which would have been due on such Scheduled Payment Date but for such Guaranteed Amounts having become due prior to such Scheduled Payment Date by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise);

“**Notes**” means the £400,000,000 Floating Rate Secured Notes due 2013 issued by the Issuer on or about 12 November 2003;

“**Notice of Demand**” means a Notice of Demand and Certificate in the form attached hereto, duly executed by the Beneficiary;

“**Paying Agent**” has the meaning given to that term in the Trust Deed;

“**Person**” means any person, firm, company or body corporate, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of the foregoing;

“**Policy Excluded Amounts**” means, in respect of the Guaranteed Obligations:

- (a) any principal or other sums payable on an accelerated basis by the Issuer in respect of any redemption of the Notes pursuant to Condition 6(c) (*Redemption, for taxation or other reasons*) or Condition 10(b) (*Events of Default*) (other than where Ambac elects to make an Accelerated Payment in accordance with the terms of the Financial Guarantee Policy in respect of any such amounts);
- (b) any default interest due on any of the Guaranteed Obligations;

“**Preference**” means a preference pursuant to section 239 of the UK Insolvency Act 1986 (as amended, varied or supplemented from time to time) or a preference pursuant to section 286 of the Irish Companies Act, 1963 or section 139 of the Irish Companies Act, 1990 (in both cases as amended, varied or supplemented from time to time);

“**Receipt**” means actual delivery to Ambac at the address specified at the beginning of this Financial Guarantee (or such other address as Ambac may from time to time designate in writing to the Beneficiary) prior to 12:00 noon, London time, on a Business Day. Delivery either on a day that is not a Business Day or after 12:00 noon, London time, shall be deemed to be Receipt on the next succeeding Business Day;

“**Relevant Date**” means whichever is the later of (a) the date on which any Guaranteed Amount becomes Due for Payment and (b) if the full amount payable has not been paid by Ambac on or prior to such date, the date on which the full amount payable has been paid by Ambac;

“**Scheduled Interest**” means in respect of the Notes, interest payable thereon as specified in Condition 5 (*Interest*), but excluding all Policy Excluded Amounts and disregarding for this purpose the limited recourse nature of the relevant Guaranteed Obligations;

“**Scheduled Payment Date**” means each Interest Payment Date (as defined in Condition 1 (*Definitions*)) on which any Scheduled Interest or any Ultimate Principal is due and payable, disregarding for this purpose the limited recourse notice of the relevant Guaranteed Obligations;

“**Trust Deed**” means the trust deed dated on or about 12 November 2003 between the Issuer, Ambac and the Trustee in respect of the issue of the Notes;

“Trustee” means The Bank of New York, London Branch or any successor trustee, in each case as appointed pursuant to the terms of the Trust Deed, as trustee for the Holders of the Guaranteed Obligations;

“Ultimate Principal” means, in respect of the Guaranteed Obligations, principal repayable as specified in Condition 6(a) (*Redemption Purchase and Cancellation – Final Redemption*) but disregarding for this purpose the limited recourse nature of the relevant Guaranteed Obligations;

Any capitalised terms not defined herein shall have the meaning given to such terms in the Master Definitions Schedule signed for the purposes of identification by Freshfields Bruckhaus Deringer and Linklaters on or about 12 November 2003.

**Miscellaneous**

This Financial Guarantee constitutes the entire agreement between Ambac and the Beneficiary in relation to Ambac’s obligation to make payments to the Beneficiary in respect of Guaranteed Amounts and, save for the provision of a Notice of Demand as provided for herein, nothing in this Financial Guarantee constitutes a warranty or a condition precedent to this Financial Guarantee.

**This Financial Guarantee shall terminate on the date falling two years and one day after the last Scheduled Payment Date and Ambac shall cease to be liable for any claim made in respect of any Guaranteed Obligations after such date unless, prior to such last Scheduled Payment Date, the Issuer has become subject to any proceedings pursuant to Insolvency Law.**

No Person, other than the Trustee, shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Financial Guarantee.

This Financial Guarantee shall be governed by and construed in accordance with the laws of England and Wales.

In witness whereof, this Financial Guarantee has been executed as a deed on the date inserted above.

Executed as a deed  
By AMBAC ASSURANCE UK LIMITED

By:	By:
Name:	Name:
Title:	Title:

Executed as a deed  
By THE BANK OF NEW YORK, LONDON BRANCH

By:  
  
Name:  
  
Title:

## NOTICE OF DEMAND AND CERTIFICATE

Ambac Assurance UK Limited  
Hasilwood House  
60 Bishopsgate  
London EC2N 4BE  
Telephone: 020 7786 4300  
Fax: 020 7786 4343  
Registered in England  
Registered Number 3248674

Attention: Managing Director, Ambac Assurance UK Limited

The undersigned, a duly authorised officer of *[insert name of Beneficiary]* (the “Beneficiary”), hereby certifies to Ambac Assurance UK Limited (“Ambac”), with reference to the Financial Guarantee No. UK [●] dated 12 November 2003 (the “Financial Guarantee”) issued by Ambac in respect of the obligations of Gracechurch Life Finance p.l.c. (a company incorporated in Ireland with limited liability under registered number 374710) (the “Issuer”), that:

- (i) the Beneficiary is the Note Trustee under the Trust Deed for the Holders;
- (ii) the Beneficiary has calculated that the deficiency in respect of the Guaranteed Amounts which *[are/were]* Due for Payment on *[insert Scheduled Payment Date]* under the Notes (the “Affected Guaranteed Obligations”) *[will be/were]* *[insert applicable currency and amount]* (the “Shortfall”). Of such Shortfall, *[insert applicable currency and amount]* is Scheduled Interest on the Affected Guaranteed Obligations; *[insert applicable currency and amount]* is Ultimate Principal on the Affected Guaranteed Obligations;
- (iii) the Beneficiary is making a claim under the Financial Guarantee for the Shortfall to be applied to the payment of Guaranteed Amounts which are Due for Payment;
- (iv) the Beneficiary agrees that, following payment of funds by Ambac, it shall use reasonable endeavours to procure (a) that such amounts are applied directly to the payment of Guaranteed Amounts which are Due for Payment; (b) that such funds are not applied for any other purpose; and (c) the maintenance of an accurate record of such payments with respect to each Guaranteed Obligation and the corresponding claim on the Financial Guarantee and the proceeds thereof and for the purposes of (a) and (b) above, it shall be sufficient if the Beneficiary directs Ambac to make payment to the Principal Paying Agent; and
- (v) Payment should be made by Ambac in *[currency]* by credit to an account in the name of *[insert name of Beneficiary or Principal Paying Agent]* with *[insert name of bank]*, of *[insert address of bank]*, Sort Code [●], Account Number [●].

The Beneficiary acknowledges that the Trust Deed and the Financial Guarantee provide that as of the date on which the Shortfall is credited to such account, Ambac shall be deemed fully and automatically subrogated, pursuant to the applicable law to the rights (including, without limitation, any rights and benefits attached thereto and any security granted at law, by contract or otherwise) of the Holders of the Affected Guaranteed Obligations to payment of the Guaranteed Amounts to the extent of such Shortfall.

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and Certificate and not defined herein shall have the meanings provided in the Financial Guarantee.

No person, other than Ambac, shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Notice of Demand and Certificate.

This Notice of Demand and Certificate may be revoked by written notice by the Beneficiary to Ambac at any time prior to the date specified above on which Guaranteed Amounts are Due for Payment to the extent that moneys are actually received in respect of the Guaranteed Obligations prior to such date from a source other than Ambac.

This Notice of Demand and Certificate shall be governed by and construed in accordance with the laws of England and Wales.

IN WITNESS WHEREOF, the Beneficiary has executed and delivered this Notice of Demand and Certificate on [●] 200[●].

*[Insert name of Trustee]*

By (sign):

Name (print):

Title:

Phone Number:

## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form (subject to completion and amendment) in which they will be set out in the Trust Deed. They will be incorporated by reference into the Notes in global form and will be endorsed on the Notes in definitive form (if any) issued in exchange for the Permanent Global Notes. These terms and conditions are subject to the provisions of the Trust Deed, the Issuer Deed of Charge and the other Transaction Documents (each as defined below).*

The £400,000,000 Secured Floating Rate Notes due 2013 (the “**Notes**”) of Gracechurch Life Finance p.l.c. (the “**Issuer**”) are constituted by a trust deed dated on or about 12 November 2003 (or such later date as the Issuer and Lead Manager may agree) (the “**Closing Date**”) (the “**Trust Deed**”) between the Issuer, Ambac Assurance UK Limited (“**Ambac**”) and The Bank of New York, London Branch (in this capacity, the “**Note Trustee**” which expression includes its successors or any other trustee appointed pursuant to the Trust Deed) as trustee for the holders for the time being of the Notes (the “**Noteholders**”), the holders for the time being of the Coupons (the “**Couponholders**”) and the holders for the time being of the Talons (the “**Talontholders**”) and are subject to these terms and conditions (the “**Conditions**”).

Under a financial guarantee policy and the endorsement thereto dated on or about the Closing Date (the “**Ambac Financial Guarantee**”) issued by Ambac, Ambac will unconditionally and irrevocably guarantee the Scheduled Interest and Ultimate Principal (each as defined in the Ambac Financial Guarantee) payable in respect of the Notes.

Under an agency agreement dated on or about the Closing Date (the “**Agency Agreement**”) between the Issuer, the Note Trustee, and The Bank of New York, London Branch as security trustee (in this capacity, the “**Issuer Security Trustee**”), The Bank of New York, London Branch as principal paying agent (the “**Principal Paying Agent**”), AIB/BNY Fund Management (Ireland) Limited as Irish Paying Agent (the “**Irish Paying Agent**” and, together with the Principal Paying Agent and any other paying agents, appointed from time to time in respect of the Notes under the Agency Agreement, the “**Paying Agents**”) and The Bank of New York, London Branch as agent bank (the “**Agent Bank**” and, together with the Paying Agents, the “**Agents**”) among other things, the Issuer will appoint the Paying Agents to make payments of principal, interest and other amounts, if any in respect of the Notes on its behalf and will appoint the Agent Bank to make certain calculations in respect of the Notes.

Security for the Notes is created by a deed of charge (the “**Issuer Deed of Charge**”) dated on or about the Closing Date between, among others, the Issuer and Issuer Security Trustee.

Any reference in these Conditions to the Trust Deed, the Issuer Deed of Charge, the Agency Agreement or any other Transaction Document (as defined below) is to such document as from time to time amended, varied or novated in accordance with its provisions and includes any deed or other document expressed to be supplemental to it, as from time to time so amended.

Any reference in these Conditions to the Note Trustee, the Issuer Security Trustee, any Paying Agent or the Agent Bank includes its successors, transferees and assigns and, in the case of the Note Trustee and the Issuer Security Trustee, includes any additional trustee appointed under the Trust Deed or, as the case may be, the Issuer Deed of Charge.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Issuer Deed of Charge, the Agency Agreement and the other Transaction Documents.

The Noteholders, the Couponholders and the Talontholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Issuer Deed of Charge and the Agency Agreement and are deemed to have notice of all the provisions of the other Transaction Documents.

The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 30 October 2003.

### 1. DEFINITIONS

1.1 In these Conditions:

“**Agency Agreement**” means the agency agreement dated on or about the Closing Date between the Issuer, the Note Trustee, the Issuer Security Trustee and the Agents;

**“Agent Bank”** means, as at the Closing Date, The Bank of New York, London Branch, a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

**“Agents”** means the Paying Agents and the Agent Bank or, where the context so requires, any of them;

**“Ambac”** means Ambac Assurance UK Limited, a company incorporated in England and Wales with limited liability (registered number 3248674) whose registered office is at Hasilwood House, 60 Bishopsgate, London EC2N 4BE;

**“Ambac Event of Default”** means each of the following events:

- (a) any Guaranteed Amounts (as defined in the Ambac Financial Guarantee) which is Due for Payment (as defined in the Ambac Financial Guarantee), is unpaid by reason of non-payment and is not paid by Ambac on the Scheduled Payment Date (as defined in the Ambac Financial Guarantee);
- (b) Ambac disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Ambac Financial Guarantee or so seeks to do so;
- (c) a court of competent jurisdiction enters into a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or
- (d) Ambac:
  - (i) presents and petitions or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or
  - (ii) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
  - (iii) becomes unable to pay its debts within the meaning of section 123(2) or section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due; or
- (e) an event of default in respect of Ambac occurs under the Ambac Liquidity Facility Financial Guarantee or the Ambac Swap Financial Guarantee.

**“Ambac Liquidity Facility Financial Guarantee”** means the financial guarantee dated on or about the Closing Date that Ambac provides in favour of the Liquidity Provider;

**“Ambac Financial Guarantee”** means the unconditional and irrevocable financial guarantee dated on or about the Closing Date that Ambac provides in favour of the Note Trustee on behalf of the Noteholders from time to time;

**“Ambac Swap Financial Guarantee”** means the financial guarantee policy dated on or about the Closing Date that Ambac provides in favour of the Swap Provider;

**“Ambac Termination Event”** means (A) an Ambac Event of Default has occurred and is continuing and/or (B) Ambac has no further obligations, actual or contingent, under the Ambac Financial Guarantee, the Ambac Swap Financial Guarantee or the Ambac Liquidity Facility Financial Guarantee and no amounts are then owing to Ambac under the Guarantee and Reimbursement Agreement;

**“Available Redemption Funds”** means, on any Interest Payment Date, the lower of (x) the Principal Amount Outstanding of the Notes immediately prior to such date and (y) the amount determined on the immediately preceding Issuer Report Date as the amount of Issuer Available Funds available to be paid in or towards redeeming the Notes in accordance with the Issuer Pre-Enforcement Priority of Payments;

**“Barclays”** means Barclays Bank PLC, a public company incorporated in England and Wales with limited liability (registered number 1026167) whose registered office is at 54 Lombard Street, London EC3P 3AH;

**“Basic Terms Modification”** means, in respect of the Notes:

- (a) any modification of the date of maturity of the Notes;
- (b) any modification which would have the effect of (A) postponing any day for repayment of principal thereof or payments of interest thereon, (B) reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, (C) altering the priority of payment of interest and principal on the Notes or the Issuer Security, (D) altering the currency of payment of the Notes or the Coupons (other than pursuant to Condition 7 (*Payments – Change in Currency*), or (E) making alternative arrangements in relation to the Issuer Security pursuant to paragraph (b)(vii) of Condition 10 (*Issuer Events of Default – Events*);
- (c) removing or replacing the Note Trustee; or
- (d) an alteration of (A) the definition of Basic Terms Modification, (B) the majority required to effect a Basic Terms Modification or (C) the majority required to pass an Extraordinary Resolution;

**“Breach”** means a determination under which any Deemed Warranties are determined to be incorrect or determined to have been breached pursuant to the provisions of the Subordinated Loan Agreement;

**“Business Day”** means a day (other than a Saturday or a Sunday) on which commercial banks are generally open for business in London and Dublin;

**“Clearstream, Luxembourg”** means Clearstream Banking, *société anonyme*;

**“Closing Date”** means 12 November 2003 or such later date as may be agreed between the issuer and the Lead Manager;

**“Commitment Fees”** means the commitment fees from time to time payable in accordance with the Liquidity Facility Agreement;

**“Common Depository”** means The Bank of New York, London Branch, as common depository on behalf of Euroclear and Clearstream, Luxembourg;

**“Conditions”** means these terms and conditions;

**“Controlling Creditor”** means:

- (a) other than in respect of any Reserved Matters or Basic Terms Modification;
  - (i) Ambac, prior to the occurrence of an Ambac Termination Event; and thereafter,
  - (ii) the Noteholders; and thereafter,
  - (iii) the Issuer Secured Creditor ranking highest in the Issuer Priorities of Payments then applicable (or, if more than one ranking *pari passu*, the one owed the largest amounts);
- (b) in the case of any Reserved Matter or Basic Terms Modification, the Noteholders;

**“Couponholders”** means the holders from time to time of the Coupons;

**“Coupon Sheet”** has the meaning given to it in Condition 7(i) (*Payments – Exchange of Talons*);

**“Coupons”** means the bearer interest coupons in or substantially in the form set out in Schedule 4 (*Form of Coupon*) to the Trust Deed and for the time being outstanding or, where the context so requires, a specific number of them and includes (where applicable) the Talons in respect of such Coupons;

**“Deemed Warranties”** means certain representations and warranties and certain covenants and undertakings in relation to New Barclays Life and the Reinsurer in respect of a Breach of which Barclays may be required to make a Further Advance under the Subordinated Loan Agreement;

**“Deferred Expected Amortisation Amount”** means, at any time, an amount equal to the shortfall (if any) between the sum of all Expected Amortisation Amounts payable (on the assumption that funds are available to make such payment) in respect of all the Notes on each preceding Interest Payment Date and the total aggregate amount actually applied in redemption of the Notes in accordance with the Issuer Pre-Enforcement Priority of Payments;

**“Definitive Note”** means in respect of the Notes, each bearer note issued or to be issued in definitive form for that Note in or substantially in the form set out in Schedule 3 (*Form of Definitive Note*) to the Trust Deed;



“**Eligible Deposits**” means demand or time deposits or certificates of deposit of any credit institution whose short term, unsecured, unguaranteed debt obligations are rated at least P-1 by Moody’s and A-1 by S&P provided that:

- (i) in all cases such deposits have a maturity date falling no later than the next following date on which a payment is required to be made with the moneys invested therein; and
- (ii) in the event that the period between the date of the deposit of amounts standing to the credit of the Liquidity Reserve Accounts and the maturity date exceeds 30 days, the short term, unsecured, unguaranteed debt obligations of the credit institution selected must be rated at least A-1+ by S&P;

“**Enforcement Notice**” has the meaning given to it in Condition 10(b) (*Issuer Events of Default – Events of Default*);

“**Euroclear**” means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

“**Excess Reserve Amount**” means the amount by which the Relevant Regulatory Surplus Amount is increased in any subsequent year following a Further Advance to compensate the Issuer for a reduction in the Relevant Regulatory Surplus Amount in any year as a result of reserves having been increased which are determined not to have been justifiable in accordance with the Subordinated Loan Agreement;

“**Exchange Date**” means with respect to a Note the first day following the expiry of forty days after the date of issue of such Note;

“**Exchange Event**” means:

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and in fact do so cease business and no other alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in or in the interpretation or administration of, the laws or regulation of the United Kingdom or the Republic of Ireland (or any political subdivision thereof) or of any authority in it or of it having power to tax, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required if the Notes were in definitive form;

“**Expected Amortisation Amount**” means the amounts of principal determined on the basis of the Base Case Assumptions to be payable on the relevant Interest Payment Date as follows:

<i>Interest Payment Date falling in</i>	<i>Expected Amortisation Amount per Note of £100,000</i>
April 2004	£28,250
April 2005	£20,500
April 2006	£19,250
April 2007	£18,750
April 2008	£13,250

and for these purposes, “**Expected Amortisation Amount**” in respect of an Interest Payment Date means the Expected Amortisation Amount in respect of a Note on such Interest Payment Date;

“**Expenses Loan**” means the loan granted to the Issuer by the Expenses Loan Provider on the Closing Date pursuant to the Expenses Loan Agreement;

“**Expenses Loan Agreement**” means the expenses loan agreement dated on or about the Closing Date between, *inter alios*, Barclays and the Issuer, under which Barclays will agree to advance an amount equal to £7,400,000 to the Issuer on the Closing Date to enable the Issuer to fund certain initial costs and expenses of the Transaction and the Issuer Reserve Account;

“**Expenses Loan Amortisation Amount**” means the amount of principal determined to be repayable in accordance with the Expenses Loan Agreement;

“**Expenses Loan Provider**” means, as at the Closing Date, Barclays;

**“Extraordinary Resolution”** means a resolution passed at a Meeting duly convened and held in accordance with the Provisions for Meetings of Noteholders by a majority of not less than 75 per cent. of the votes cast;

**“Final Maturity Date”** means the Interest Payment Date falling in April 2013;

**“Financial Guarantees”** means the Ambac Financial Guarantee, the Ambac Swap Financial Guarantee and the Ambac Liquidity Facility Financial Guarantee;

**“Further Advance”** means a further advance made or to be made by Barclays under the Subordinated Loan Agreement;

**“Further Advance Event”** means any event which gives rise to an obligation to make a Further Advance under the Subordinated Loan Agreement;

**“Global Notes”** means the Temporary Global Note and the Permanent Global Note or, where the context so requires, any of them;

**“Guarantee and Reimbursement Agreement”** means a reimbursement and indemnity agreement dated on or about the Closing Date, between, *inter alios*, the Issuer and Ambac, pursuant to which the Issuer will be obliged, *inter alia*, to reimburse Ambac in respect of any payments made by Ambac under each of the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee and the Ambac Swap Financial Guarantee and will be obliged to pay any fees and expenses of Ambac in respect of the provision of the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee and the Ambac Swap Financial Guarantee;

**“Indebtedness”** means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and
- (e) amounts raised under any other transaction (including without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

**“Insolvency Official”** means, in respect of any company, a liquidator, provisional liquidator, examiner, administrator, administrative receiver, Receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of all (or substantially all) of the company’s assets or in respect of any arrangement or composition with creditors;

**“Insolvency Proceedings”** means the winding-up, dissolution, examination or administration of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, examination, arrangement, adjustment, protection or relief from creditors or the appointment of a receiver, administrative receiver or examiner;

**“Interest Amount”** has the meaning given to it in Condition 5(d) (*Interest – Determination of Rates of Interest and Calculation of Interest Amounts*);

**“Interest Determination Date”** means the day on which each Interest Period commences or in the case of the first Interest Period, the Closing Date;

**“Interest Payment Date”** means the fifteenth day of January, April, July and October in each year or, if that day is not a Business Day, the next succeeding Business Day;

**“Interest Period”** means each period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date provided that the first Interest Period shall be the period from (and including) the Closing Date to (but excluding) the Interest Payment Date falling in January 2004 and the last Interest Period shall be the period from (and including) the Interest Payment Date falling in January 2013 and ending on (but excluding) the Final Maturity Date;

“**Investor Report**” means the annual report to be prepared by the Issuer Cash Manager substantially in the form set out in Schedule 7 to the Issuer Cash Management Agreement;

“**Irish Paying Agent**” means, as at the Closing Date, AIB/BNY Fund Management (Ireland) Limited, acting through its office at Guild House, Guild Street, IFSC, Dublin, Ireland;

“**ISDA Master Agreement**” means the 1992 ISDA Master Agreement (Multicurrency – Cross Border) published by the International Swaps and Derivatives Association, Inc.;

“**Issuer**” means Gracechurch Life Finance p.l.c., whose registered office is at Trinity House, Charleston Road, Ranelagh, Dublin 6, Ireland;

“**Issuer Account Bank**” means, as at the Closing Date, The Bank of New York, London Branch, a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

“**Issuer Account Bank Agreement**” means the account bank agreement dated on or about the Closing Date, between, *inter alios*, the Issuer and the Issuer Account Bank, pursuant to which the Issuer will establish the Issuer Accounts;

“**Issuer Accounts**” means the Issuer Transaction Account, the Liquidity Reserve Account, the Issuer Share Capital Account and the Issuer Reserve Account or, where the context so requires, any of them;

“**Issuer Administration Agreement**” means the agreement dated on or about the Closing Date between the Issuer, the Issuer Administrator and the Note Trustee;

“**Issuer Administrator**” means, as at the Closing Date, Structured Finance Management (Ireland) Limited, whose registered office is at Trinity House, Charleston Road, Ranelagh, Dublin 6, Ireland;

“**Issuer Assigned Agreements**” has the meaning given to it in Condition 3(g) (*Status, Priority and Security – Security*);

“**Issuer Available Funds**” means, in respect of an Interest Payment Date, the aggregate of (i) funds which are standing to the credit of the Issuer Transaction Account on the immediately preceding Issuer Report Date, plus (ii) the amount determined on the immediately preceding Issuer Report Date to be the net amount payable to the Issuer under the Swap on such Interest Payment Date (or, if negative, zero), plus (iii) the amount determined on the immediately preceding Issuer Report Date to be the amount payable by the Reinsurer under the Reinsurer Loan on such Interest Payment Date excluding, unless Barclays otherwise elects, any Excess Reserve Amount and any Refundable Amount, plus (iv) the amount determined on the immediately preceding Issuer Report Date to be the amount required to be, and available to be drawn under, the Liquidity Facility Agreement, plus (v) the amount determined on the immediately preceding Issuer Report Date to be the Further Advances payable by the Subordinated Loan Provider under the Subordinated Loan Agreement on such Interest Payment Date;

“**Issuer Cash Management Agreement**” means the agreement dated on or about the Closing Date between, *inter alios*, the Issuer, the Issuer Cash Manager and the Issuer Security Trustee;

“**Issuer Cash Manager**” means, as at the Closing Date, The Bank of New York, London Branch, a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

“**Issuer Charged Property**” means the whole of the right, title, benefit and interest of the Issuer in the property, assets and rights of the Issuer described in Clause 4 (*Security and Declaration of Trust*) of the Issuer Deed of Charge and all other property, assets and rights whatsoever of the Issuer and wheresoever situated, present and future of the Issuer;

“**Issuer Deed of Charge**” means the deed of charge dated the Closing Date between, *inter alios*, the Issuer and the Issuer Security Trustee;

“**Issuer Event of Default**” has the meaning given to it Condition 10(b) (*Issuer Events of Default – Events of Default*);

“**Issuer Post-Enforcement Priority of Payments**” has the meaning given to it in Condition 3(j) (*Status, Priority and Security – Priority of Payments Following Enforcement*);

“**Issuer Pre-Enforcement Priority of Payments**” has the meaning given to it in Condition 3(i) (*Status, Priority and Security – Principal Priority of Payments Prior to Enforcement*);

**“Issuer Priorities of Payments”** means, at any time, the Issuer Pre-Enforcement Priority of Payments if applicable at that time or the Issuer Post-Enforcement Priority of Payments if applicable at that time;

**“Issuer Report Date”** means the fifth Business Day before each Interest Payment Date, where an Enforcement Notice has not been served before such date in question and the Interest Payment Date in any other case;

**“Issuer Reserve Account”** means a Sterling denominated account numbered 4101608261 of the Issuer with the Issuer Account Bank to which an initial amount of £100,000 is to be credited on or about the Closing Date;

**“Issuer Secured Creditors”** means the Noteholders, the Couponholders, Ambac, the Note Trustee, the Issuer Security Trustee, any Receiver, the Paying Agents, the Agent Bank, the Issuer Account Bank, the Issuer Administrator, the Issuer Cash Manager, the Swap Provider, the Subordinated Loan Provider, the Liquidity Provider, the Expenses Loan Provider and the Reinsurer;

**“Issuer Secured Obligations”** means all moneys, obligations and liabilities of any kind which are now or may from time to time after the date of the Issuer Deed of Charge become due, owing or payable by the Issuer, actually or contingently, in any currency to, or to the order of:

- (i) the Noteholders, the Issuer Security Trustee, the Note Trustee and any Receiver under or in respect of the Issuer Deed of Charge, the Trust Deed or the Agency Agreement;
- (ii) the Liquidity Provider under or in respect of the Liquidity Facility Agreement and the Issuer Deed of Charge;
- (iii) the Swap Provider under or in respect of the Swap Agreement and the Issuer Deed of Charge;
- (iv) the Subordinated Loan Provider under or in respect of the Subordinated Loan Agreement and the Issuer Deed of Charge;
- (v) the Expenses Loan Provider under or in respect of the Expenses Loan Agreement and the Issuer Deed of Charge;
- (vi) the Reinsurer in respect of the Reinsurer Gross-Up Loan under the Reinsurer Loan Agreement and the Issuer Deed of Charge;
- (vii) Ambac, in respect of amounts payable under the Guarantee and Reimbursement Agreement, the Ambac Fee Letter and the Issuer Deed of Charge;
- (viii) the Agents under the Agency Agreement and the Issuer Deed of Charge;
- (ix) the Issuer Cash Manager under the Issuer Cash Management Agreement and the Issuer Deed of Charge;
- (x) the Issuer Administrator under the Issuer Administration Agreement and the Issuer Deed of Charge; and
- (xi) the Issuer Account Bank under the Issuer Account Bank Agreement and the Issuer Deed of Charge,

in each case, to which each is respectively entitled, and in any capacity and on any basis;

**“Issuer Security”** means the security created pursuant to the Issuer Deed of Charge over all of the assets, revenue and property of the Issuer, as more fully described in Condition 3(h) (*Status, Priority and Security – Security*);

**“Issuer Security Trustee”** means, The Bank of New York, London Branch, a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

**“Issuer Share Capital Account”** means the sterling denominated account numbered 4101609780 of the Issuer with the Issuer Account Bank;

**“Issuer Transaction Account”** means the sterling denominated account numbered 4101608260 of the Issuer with the Issuer Account Bank;

**“Lead Manager”** means Barclays Capital;

**“LIBOR”** means:

- (i) the interest rate for three-month Sterling deposits offered to prime banks in the London inter-bank market which appears on Telerate Screen Page No. 3750 (or such other page as may replace Telerate Screen Page No. 3750 on that service for the purpose of displaying such information or if that service ceases to display such information, such page as displays such information on an equivalent service (or, if more than one, that one which is approved in writing by the Note Trustee to replace the Telerate Monitor)) at or about 11.00 a.m. (London time) on the Interest Determination Date (the “**Screen Rate**”); or in the case of the first Interest Period only, the rate obtained by the linear interpolation of the rate for two-month and three-month Sterling deposits in the market; or
- (ii) if the Screen Rate is unavailable at such time, then the rate for the relevant Interest Period shall be the arithmetic mean (rounded to four decimal places with the mid-point rounded up) of the rates notified to the Agent Bank at its request by each of the Reference Banks as the rate at which three-month Sterling deposits or in the case of the first Interest Period only, two and/or three month Sterling deposits (as the case may be) in a representative amount are offered by that Reference Bank to prime banks in the London inter-bank market at or about 11.00 a.m. (London time) on the Interest Determination Date. If on any such Interest Determination Date, at least two of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing one additional bank to provide such a quotation or quotations to the Agent Bank (which bank is in the opinion of the Note Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed. If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the rate for the relevant Interest Period other than the first Interest Period shall be the rate in effect as at the last preceding Interest Determination Date to which paragraph (i) of this definition shall have applied and in respect of the first Interest Period shall be the arithmetic mean of the rates quoted by such other major banks selected by the Agent Bank and approved by the Note Trustee on the relevant Interest Determination Date;

“**Liquidity Advance**” means an advance made under the Liquidity Facility Agreement;

“**Liquidity Reserve Account**” means the Sterling denominated account numbered 4101608262 held in the name of the Issuer with the Issuer Account Bank, for the deposit of certain drawings made pursuant to the Liquidity Facility Agreement;

“**Liquidity Facility**” means the £50,900,000 in aggregate principal amount 364-day Sterling revolving facility provided by the Liquidity Provider pursuant to the Liquidity Facility Agreement;

“**Liquidity Facility Agreement**” means the Liquidity Facility Agreement dated on or about the Closing Date between the Issuer, the Liquidity Provider and the Issuer Security Trustee;

“**Liquidity Provider**” means, as at the Closing Date, Barclays or such other financial institution as is appointed time to time under the Liquidity Facility Agreement;

“**Loan Interest Payment Date**” means the Interest Payment Date falling in April in each year and the date on which all Notes are redeemed;

“**Master Definitions Schedule**” means the master definitions and constructions schedule signed for the purposes of identification only by Freshfields Bruckhaus Deringer and Linklaters on or about the Closing Date;

“**Meeting**” means a meeting of all of the Noteholders (whether originally convened or resumed following an adjournment);

“**Moody’s**” means Moody’s Investors Service, Limited (or any successor to its rating business);

“**New Barclays Life**” means Barclays Life Assurance Company Limited, a company incorporated in England and Wales with registered number 151731, a wholly owned subsidiary of Barclays;

“**Note Principal Payment**” has the meaning given to it in Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*);

“**Note Trustee**” means, as at the Closing Date, The Bank of New York, London Branch, a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

“**Noteholders**” means:

- (i) in relation to any Notes represented by a Global Note, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular Principal Amount Outstanding of those Notes, for which purpose any certificate or letter of confirmation (or any other form of record made by any of them) as to the Principal Amount Outstanding of Notes standing to the account of any person shall be conclusive and binding on the basis that that person shall be treated by the Issuer, the Note Trustee and all other persons as the holder of that Principal Amount Outstanding of those Notes for all purposes other than the right to payments in respect of those Notes which shall be vested, as against the Issuer, solely in the bearer of the relevant Global Note, who shall be regarded as the **Noteholder** for that purpose; and
- (ii) in relation to any Definitive Notes issued under Condition 2(d) (*Form, Denomination and Title – Issue of Definitive Notes*), the bearers of those Definitive Notes,

and related expressions shall be construed accordingly;

“**Notes**” means the Definitive Notes and the Global Notes or, where the context so requires, or any of them;

“**Offering Circular**” means the offering circular dated 31 October 2003 relating to the issue and offering of the Notes;

“**outstanding**” means, in relation to the Notes, all the Notes other than:

- (a) those which have been redeemed in full in accordance with the Conditions;
- (b) those in respect of which the date for redemption in accordance with the provisions of the Conditions has occurred and for which the redemption moneys (including all interest and other amounts (if any) accrued thereon to such date for redemption) have been duly paid to the Principal Paying Agent or the Note Trustee in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with Condition 17 (*Notices and Information*)) and remain available for payment in accordance with the Conditions);
- (c) those which have become void under Condition 8 (*Prescription*);
- (d) those mutilated or defaced Notes which have been surrendered or cancelled and in respect of which replacement Notes have been issued pursuant to Condition 16 (*Replacement of Notes, Coupons and Talons*);
- (e) the Temporary Global Note, to the extent that it shall have been exchanged for the Permanent Global Note, or the Permanent Global Note, to the extent that it shall have been exchanged for Definitive Notes; and
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Notes then outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 16 (*Replacement of Notes, Coupons and Talons*);

those Notes (if any) which are for the time being held by any person for the benefit of the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

“**Other Secured Contractual Rights**” means any agreement, instrument or notice other than the Issuer Assigned Agreements to which the Issuer becomes a party or in respect of which it has or may have any right, interest, title or benefit, either existing now or at any time in the future;

“**Paying Agents**” means the Principal Paying Agent together with the Irish Paying Agent and any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement and “**Paying Agent**” means any one of them;

“**Permanent Global Note**” means, in respect of the Notes, the bearer permanent global note for those Notes in or substantially in the form set out in Schedule 2 (*Form of Permanent Global Note*) to the Trust Deed;

**“Pool Factor”** has the meaning given to it in Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*);

**“Potential Ambac Event of Default”** means any event that with the giving of notice and/or passage of time and/or the fulfilment of any other requirement would constitute an Ambac Event of Default;

**“Potential Breach”** means an event or circumstance which:

- (a) may be determined to be a Breach once the facts or circumstances are determined (including following settlement of any dispute or investigation); and
- (b) in respect of which New Barclays Life determines that a reserve should be set aside in respect of such Potential Breach.

**“Principal Amount Outstanding”** means, on any date in relation to a Note, the principal amount outstanding of that Note as at the Closing Date less the aggregate of all Note Principal Payments that have been paid by the Issuer in respect of that Note on or prior to that date;

**“Principal Paying Agent”** means, as at the Closing Date, The Bank of New York, London Branch a banking organisation organised under the laws of the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

**“Provisions for Meetings of Noteholders”** means the provisions contained in Schedule 10 (*Provisions for Meetings of Noteholders*) to the Trust Deed;

**“Rate of Interest”** has the meaning given to it in Condition 5(c) (*Interest – Rate of Interest*);

**“Rating Agencies”** means Moody’s and S&P;

**“Rating Condition”** means, with respect to any action taken or to be taken, a condition that is satisfied when each Rating Agency has confirmed in writing that such action will not result in the withdrawal, reduction or other adverse action with respect to the then-current rating of the Notes;

**“Receiver”** means any person (being a licensed insolvency practitioner), who is appointed by the Issuer Security Trustee to be a receiver of the Issuer Charged Property to act jointly, or jointly and severally, as the Issuer Security Trustee shall determine;

**“Reference Banks”** means Barclays Bank PLC, Deutsche Bank AG London, Lloyds TSB Bank, and National Westminster Bank Plc or such other four major banks in the London inter-bank market as may be approved by the Note Trustee from time to time;

**“Refundable Amount”** means that part of any Relevant Regulatory Surplus Amount designated as such by Barclays in accordance with the Subordinated Loan Agreement, including any Excess Reserve Amount;

**“Reinsurance Agreement”** means the reinsurance agreement dated 9 September 2003 between the Reinsurer and New Barclays Life;

**“Reinsurer”** means Barclays Reinsurance Dublin Limited, a private company limited by shares incorporated in Ireland under the Irish Companies Acts 1963 to 2001 (registered number 369378), whose registered address is at 47/48 St. Stephen’s Green, Dublin 2, Ireland;

**“Reinsurer Account Bank”** means, as at the Closing Date, Barclays acting from its Dublin branch;

**“Reinsurer Administration Agreement”** means an administration agreement dated on or about the Closing Date between, *inter alios*, the Issuer and the Reinsurer Administrator, under which the Reinsurer Administrator will provide corporate administration services to the Reinsurer;

**“Reinsurer Administrator”** means, as at the Closing Date, Barclays Management Services (Ireland) Limited, a company incorporated in Ireland and having its registered office at 47/48 St. Stephen’s Green, Dublin 2, Ireland;

**“Reinsurer Advances Account”** means a bank account with the Reinsurer Account Bank into which will be paid policy charges;

**“Revision Capital Account”** means a bank account with the Reinsurer Account Bank into which will be paid the Share Capital and internal capital contribution and any profits of the Reinsurer;

**“Reinsurer Deed of Charge”** means a deed of charge dated on or about the Closing Date between, *inter alios*, the Reinsurer and the Reinsurer Security Trustee (acting on behalf of itself and other Reinsurer Secured Creditors);

**“Reinsurer Funding Bank Account Agreement”** means a account bank agreement dated on or about 26 September 2003 between, *inter alios*, the Reinsurer and the Reinsurer Account Bank, pursuant to which the Reinsurer will establish the Reinsurer Transaction Account and the Reinsurer Reserve Account;

**“Reinsurer General Account”** means a bank account with the Reinsurer Account Bank into which amounts used in connection with the assumption of future liabilities under the Reinsurance Agreement will be paid;

**“Reinsurer Gross-up Loan”** means, a loan made by the Reinsurer to the Issuer in the event that interest paid by the Reinsurer is subject to withholding or deduction for or on account of tax;

**“Reinsurer Investment Management and Custody Agreement”** means a custody and investment management agreement dated 26 September 2003 between, *inter alios*, the Reinsurer, and Barclays Global Investors Limited in its capacity as Reinsurer Investment Manager and Custodian;

**“Reinsurer Investment Manager and Custodian”** means, as at the Closing Date, Barclays Global Investors Limited, a company incorporated in England and Wales and having its registered office at 54 Lombard Street, London EC3P 3AH or such other investment manager and custodian as may be appointed from time to time under the Reinsurer Investment Management and Custody Agreement;

**“Reinsurer Loan”** means the advance made by the Issuer to the Reinsurer under the Reinsurer Loan Agreement;

**“Reinsurer Loan Agreement”** means the loan agreement dated on or about the Closing Date between, *inter alios*, the Reinsurer and the Issuer, under which the Issuer will advance an amount of £756,954,189 to the Reinsurer;

**“Reinsurer Reinsurance Bank Account Agreement”** means an account bank agreement dated on or about 26 September 2003 between, *inter alios*, the Reinsurer and the Reinsurer Account Bank, pursuant to which the Reinsurer will establish the Reinsurer Advances Account, the Reinsurer Capital Account and the Reinsurer General Account;

**“Reinsurer Reserve Account”** means a reserve account with the Reinsurer Account Bank;

**“Reinsurer Security Trustee”** means The Bank of New York, London Branch a banking organisation organised in the state of New York, USA, acting through its office at One Canada Square, London E14 5AL;

**“Reinsurer Secured Creditors”** means the Issuer, the Issuer Security Trustee, New Barclays Life, the Reinsurer Administrator and the Reinsurer Investment Manager and Custodian;

**“Reinsurer Transaction Account”** means a transaction bank account with the Reinsurer Account Bank;

**“Relevant Date”** means, in respect of any payment in relation to the Notes, whichever is the later of:

- (a) the date on which the payment in question first becomes due; and
- (b) if the full amount payable has not been received by the Principal Paying Agent or the Note Trustee on or prior to such date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 17 (*Notices and Information*);

**“Relevant Margin”** has the meaning given to it in Condition 5(c) (*Interest – Rate of Interest*);

**“Relevant Regulatory Surplus Amount”** means the amount determined as such pursuant to the Reinsurance Agreement;

**“Required Reserve Amount”** means £100,000;

**“Reserved Matter”** means each and every right, power, authority and discretion of, or exercisable by, the Note Trustee, the Issuer Security Trustee or the Reinsurer Security Trustee:

- (a) to make any claim under, enforce or agree to any amendment to or novation of the Ambac Financial Guarantee;
- (b) to agree to make any amendment, waiver or consent which has the effect of (i) amending the Ambac Financial Guarantee, (ii) being a Basic Terms Modification or (iii) amending the rights and discretions of the Note Trustee, the Issuer Security Trustee or the Noteholders in respect of the Reserved Matters or any Basic Terms Modification;



- (c) to agree to any amendment (i) to the definition of “Controlling Creditor”, (ii) to any of the Transaction Documents which affects the manner in which any amounts owing to the Note Trustee (either on its own account or on the account of the Noteholders) are paid, (iii) to certain provisions of the Trust Deed, (iv) to certain provisions of the Issuer Deed of Charge, the Reinsurer Deed of Charge or to any other provision of the Transaction Documents which has the effect of amending Clause 8 (*Application of Cash on Closing Date*), Clause 9 (*Application of Cash Prior to Enforcement*) or Clause 11 (*Application of Cash upon Enforcement*) of the Issuer Deed of Charge or the Issuer Priorities of Payments or (v) of any provision which is provided for the purposes of enabling the Note Trustee or Issuer Security Trustee to protect its own interests;
- (d) which relates to the application pursuant to the Trust Deed or the Issuer Deed of Charge of any sums paid to the Note Trustee or the Issuer Security Trustee;
- (e) to make any determination contemplated or required under the Trust Deed or the Issuer Deed of Charge as to the occurrence or otherwise of an Ambac Event of Default or the occurrence of an Issuer Event of Default or in relation to the Reserved Matters or any Basic Terms Modification;
- (f) unless at such time Ambac is a Controlling Creditor, to determine whether to require prepayment of the Notes in accordance with the Conditions;
- (g) to require the making of payments due and payable to the Note Trustee or the Noteholders;
- (h) to recover or receive any sum due to the Note Trustee or Issuer Security Trustee for its own account (including, without limitation, in relation to indemnities in favour of the Note Trustee or the Issuer Security Trustee, or the payment of expenses and stamp duties owed to it), to determine the amount thereof and to make any claim in respect thereof; and
- (i) any amendment to or waiver of any provisions of the Transaction Documents which may affect or amend the rights and/or obligations of the Note Trustee and the Issuer Security Trustee under the Transaction Documents;

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (or any successor to its ratings business);

“Secured Contractual Rights” means, at any time, each of the Issuer Assigned Transaction Documents to which the Issuer is a party and the Other Secured Contractual Rights at such time;

“Security Powers of Attorney” means the security powers of attorney dated the Closing Date and granted by the Issuer in favour of the Issuer Security Trustee and set out in Schedule 1 (*Power of Attorney*) of the Issuer Deed of Charge;

“Specified office” means with respect to the Paying Agents the offices referred to in these Conditions or such other offices as may from time to time be duly notified pursuant to Condition 17 (*Notices and Information*);

“Standby Drawings” means the standby drawings made under the Liquidity Facility Agreement;

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

“Stock Exchange” means the Irish Stock Exchange Limited;

“Subordinated Loan” means the £356,954,189 in aggregate initial principal amount Sterling loan provided to the Issuer by the Subordinated Loan Provider pursuant to the Subordinated Loan Agreement;

“Subordinated Loan Agreement” means the loan agreement dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Issuer Security Trustee;

“Subordinated Loan Provider” means Barclays;

“Subscription Agreement” means the subscription agreement dated 31 October 2003 between, *inter alios*, the Lead Manager and the Issuer, under which the Lead Manager agreed (subject to certain conditions) with the Issuer to subscribe, or to procure subscriptions, for the Notes;

“Swap” means the swap transactions entered into on the Closing Date pursuant to the terms of the Swap Agreement;

“Swap Agreement” means the ISDA Master Agreement, the schedule thereto and the confirmation, each dated the Closing Date between the Issuer, the Swap Provider and the Issuer Security Trustee;

“Swap Provider” means, as at the Closing Date, Barclays;

“**Talontholders**” means the holders from time to time of the Talons;

“**Talons**” means the bearer talons in or substantially in the form set out in Schedule 5 (*Form of Talon*) to the Trust Deed and exchangeable in accordance with the Conditions for further Coupons and/or talons or, where the context so requires, a specific number of them;

“**Temporary Global Note**” means, in respect of the Notes, the bearer temporary global note for the Notes in or substantially in the form set out in Schedule 1 (*Form of Temporary Global Note*) to the Trust Deed;

“**Transaction Documents**” means:

- (a) the Agency Agreement;
- (b) the Expenses Loan Agreement;
- (c) the Financial Guarantees;
- (d) the Issuer Account Bank Agreement;
- (e) the Issuer Administration Agreement;
- (f) the Issuer Cash Management Agreement;
- (g) the Issuer Deed of Charge;
- (h) the Liquidity Facility Agreement;
- (i) the Notes;
- (j) the Guarantee and Reimbursement Agreement;
- (k) the Reinsurance Agreement;
- (l) the Reinsurer Administration Agreement;
- (m) the Reinsurer Investment Management and Custody Agreement;
- (n) the Reinsurer Funding Bank Account Agreement;
- (o) the Reinsurer Reinsurance Bank Account Agreement;
- (p) the Reinsurer Deed of Charge;
- (q) the Reinsurer Loan Agreement;
- (r) the Security Powers of Attorney;
- (s) the Subordinated Loan Agreement;
- (t) the Subscription Agreement;
- (u) the Swap Agreement;
- (v) the Trust Deed; and
- (w) the Master Definitions Schedule.

“**Trust Deed**” means the trust deed constituting the Notes dated on or about the Closing Date between the Issuer and the Note Trustee;

“**Trust Documents**” means the Trust Deed and the Issuer Deed of Charge;

“**Unguaranteed Rating**” means the underlying rating given or which would have been given, by the Rating Agencies to the Notes, disregarding the benefit of the Ambac Financial Guarantee;

“**VAT**” shall be construed as a reference to value added tax under the laws of any jurisdiction; and

“**Written Resolution**” means a resolution in writing signed by or on behalf of all holders of Notes who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for Meetings of Noteholders, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes.

## 1.2 Headings and Clauses

- (a) The headings in these Conditions shall not affect their interpretation.

#### *Singular and Plural*

- (b) Unless the context otherwise requires, words denoting the singular number only shall include the plural number also and *vice versa*, words denoting one gender only shall include the other genders and words denoting persons only shall include firms, corporations and other organised entities, whether separate legal entities or otherwise, and *vice versa*.

#### *Agreements and Statutes*

- (c) Unless the context otherwise requires, any reference in these Conditions to:
- (i) any agreement or other document shall be construed as a reference to the relevant agreement or document as the same may have been, or may from time to time be, replaced, extended, amended, varied, novated, supplemented or superseded; and
  - (ii) any statutory provision or legislative enactment shall be deemed also to refer to any re-enactment, modification or replacement thereof and any statutory instrument, order or regulation made thereunder or under any such re-enactment.

#### *Different Capacities*

- (d) Where any Transaction Party from time to time acts in more than one capacity hereunder, the provisions of these Conditions shall apply to such Transaction Party as though it were a separate party in each such capacity except insofar as they may require such party in one capacity hereunder to give any notice or information to itself in another capacity.

#### *Successors and assigns*

- (e) References to a party or a person in these Conditions shall be construed so as to include its successors, assigns and novatees and any other person who in accordance with a relevant Transaction Document replaces such party or person.

## **2. FORM, DENOMINATION AND TITLE**

#### *Form and Denomination of Temporary Global Notes*

- (a) The Notes will be in the denomination of £100,000 each, will be in bearer form and will initially be represented by a Temporary Global Note, without Coupons or Talons attached, in the aggregate principal amount on issue of £400,000,000.

#### *Exchange for Permanent Global Notes*

- (b) Interests in the Temporary Global Note are exchangeable on and after the Exchange Date, upon certification of non-US beneficial ownership by the relevant Noteholder, for interests in the Permanent Global Note, without Coupons or Talons attached.

#### *Title to Global Notes*

- (c) Title to the Global Notes will pass by delivery. For so long as any Notes are represented by a Global Note, those Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate.

#### *Issue of Definitive Notes*

- (d) If, while any Notes are represented by a Permanent Global Note, an Exchange Event occurs, the Issuer will issue Definitive Notes to Noteholders whose accounts with the relevant clearing system are credited with interests in the Permanent Global Note in exchange for those interests within 30 days of the occurrence of the relevant event but not earlier than the Exchange Date. The Permanent Global Notes will not be exchangeable for Definitive Notes in any other circumstances.

#### *Form and Denomination of Definitive Notes*

- (e) Definitive Notes, if issued, will be in the denomination of £100,000 each, serially numbered and in bearer form with (at the date of issue) Coupons and Talons for further Coupons attached. The Definitive Notes, Coupons and Talons will be security printed in accordance with applicable legal and stock exchange requirements and shall be endorsed with these Conditions.

### *Title to Definitive Notes*

- (f) Title to the Definitive Notes, Coupons and Talons will pass by delivery. The holder of any Definitive Note, Coupon or Talon may (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated at all times, by all persons and for all purposes, including the making of any payments in respect of the Notes, as the absolute owner of that Definitive Note, Coupon or Talon (regardless of any notice of ownership, destruction theft or loss or of any trust or other interest in it or any writing on it. The holder of any Coupon (whether or not it is attached to the relevant Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Note.

### **3. STATUS, PRIORITY AND SECURITY**

#### *Status and relationship between the Notes*

- (a) The Notes and the Coupons constitute direct obligations of the Issuer and are secured by the Issuer Security pursuant to the Issuer Deed of Charge.
- (b) The Notes rank *pari passu* without preference or priority amongst themselves. Certain other obligations of the Issuer rank in priority to the Notes.
- (c) The Notes and the Coupons have the benefit of the Ambac Financial Guarantee (issued pursuant to the Guarantee and Reimbursement Agreement) pursuant to which Ambac unconditionally and irrevocably agrees to pay to the Noteholders, subject to the next paragraph, all sums due and payable but unpaid by the Issuer in respect of payments of Scheduled Interest on and Ultimate Principal (each as defined in the Ambac Financial Guarantee) of the Notes, all as more particularly described in the Ambac Financial Guarantee.

Under the terms of the Ambac Financial Guarantee, Ambac does not guarantee any amounts payable by the Issuer upon an early redemption of the Notes pursuant to Conditions 6(b) (*Redemption, Purchase and Cancellation – Mandatory Redemption in Part*) or 6(c) (*Redemption, Purchase and Cancellation – Redemption for Taxation or other reasons*). Upon any such early redemption, if the amounts payable are not paid in full, Ambac's obligations will continue to be to pay the Guaranteed Amounts (as defined in the Ambac Financial Guarantee) on each Interest Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Financial Guarantee. However, it may accelerate payment under the Ambac Financial Guarantee, in whole or in part, and the amount payable will be the outstanding principal amount (or the *pro rata* amount that has become due and payable) of the Notes together with the accrued interest (any amounts due in excess of such outstanding principal amount and accrued interest thereon will not be guaranteed by Ambac under the Ambac Financial Guarantee). Under the Ambac Financial Guarantee there is no obligation on Ambac to cover any withholding required to be made by or on behalf of the Issuer in respect of the Notes.

- (d) The Ambac Financial Guarantee provided by Ambac in respect of the Notes constitutes a direct, unsecured obligation of Ambac, which will rank at least *pari passu* with all other unsecured obligations of Ambac.
- (e) If Ambac makes a payment under the Ambac Financial Guarantee in respect of Scheduled Interest and/or Ultimate Principal, Ambac shall be subrogated to the rights of the Note Trustee against the Issuer in respect of such amount and for this purpose, the Issuer shall not be discharged from its obligations under the Notes and the Trust Deed by any payment made by Ambac under the Ambac Financial Guarantee.
- (f) The Trust Deed contains provisions requiring the Note Trustee (except where expressly provided otherwise) to have regard to the interests of the Noteholders as a whole in exercising all of its rights, powers, trusts, authorities, duties and discretions.
- (g) The Issuer Deed of Charge contains provisions requiring the Issuer Security Trustee (except where expressly provided otherwise) to have regard to the interests of the Issuer Secured Creditors as a whole as regards all powers, trusts, authorities, duties and discretions of the Issuer Security Trustee but requiring the Issuer Security Trustee to have regard only to the interests of Ambac (for so long as Ambac is a Controlling Creditor) (other than in respect of Reserved Matters or any Basic Terms Modification) if in the Issuer Security Trustee's opinion,

there is a conflict between the interests of (A) Ambac and (B) any other Issuer Secured Creditor, and in all other cases while there are any Notes outstanding, to have regard only to the interests of the Noteholders if, in the opinion of the Issuer Security Trustee, there is a conflict between the interests of the Noteholders and the other Issuer Secured Creditors.

#### *Security*

- (h) As security for the Issuer Secured Obligations, the Issuer has pursuant to the Issuer Deed of Charge, created the following security in favour of the Issuer Security Trustee for the benefit of itself and the other Issuer Secured Creditors:
- (i) an assignment by way of first fixed security of all its rights, title, interest and benefit in and to the Reinsurer Loan Agreement, the Subordinated Loan Agreement, the Expenses Loan Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Agency Agreement, the Issuer Account Bank Agreement, the Guarantee and Reimbursement Agreement, the Issuer Administration Agreement, the Issuer Cash Management Agreement and the Reinsurer Deed of Charge (together, the “**Issuer Assigned Agreements**”) and Other Secured Contractual Rights, and all rights in respect of and incidental thereto;
  - (ii) a first fixed charge over all of its right, title interest and benefit, existing now or in the future, in and to all sums of moneys which may now be or hereafter are from time to time standing to the credit of the Issuer Accounts and any other bank account or book debt in which the Issuer may acquire any right, title, interest or benefit other than the Issuer Share Capital Account;
  - (iii) a first fixed charge over all of its right, title, interest and benefit, existing now or in the future, in and to the Eligible Deposits that the Issuer may acquire or make, together with all moneys, income or proceeds payable in respect thereof; and
  - (iv) a first floating charge over the whole of the undertaking of the Issuer and all of its property and assets, other than (A) property and assets effectively charged by the first ranking fixed security and (B) the share capital of the Issuer.

#### *Priority of Payments Prior to Enforcement*

- (i) Prior to the delivery of an Enforcement Notice by the Note Trustee, the Issuer Cash Manager, as agent for the Issuer, shall instruct the Issuer Account Bank to withdraw Issuer Available Funds standing to the credit of the Issuer Transaction Account to be applied in the following order of priority (the “**Issuer Pre-Enforcement Priority of Payments**”):
- (i) on each Interest Payment Date which does not also correspond to a Loan Interest Payment Date, such amount as is required to pay interest then accrued or due on the Notes on such Interest Payment Date and such amount shall be applied by or on behalf of the Issuer and paid *pro rata* all amounts of interest which are then due or accrued due on the Notes; and
  - (ii) on each Interest Payment Date which corresponds to a Loan Interest Payment Date (in each case only if and to the extent that payments or provisions of a higher order of priority have been made or provided for in full), in accordance with the following order of priority and as more fully set out in the Issuer Deed of Charge:
    - (A) *first*, in or towards payment, *pro rata* of: (i) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Deed of Charge, (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Note Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest by those amounts) for which it is entitled to be reimbursed or indemnified under the Trust Deed;
    - (B) *second*, in or toward payment, *pro rata* of: (i) the fees or other remuneration and indemnity payments (if any) which are then due to each of the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred by any of them (together with interest on those amounts) for which any of them is entitled to be reimbursed or indemnified under the Agency Agreement, (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer

Account Bank and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Bank Account Agreement, (iii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Cash Manager and costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Cash Management Agreement and (iv) the amount required to maintain the balance of the Issuer Reserve Account at £100,000 on such date;

- (C) *third*, in or towards payment of the fees, costs, liabilities and expenses (together with interest on those amounts) of the Issuer Administrator for which it is entitled to be reimbursed or indemnified under the Issuer Administration Agreement;
- (D) *fourth*, in or towards payment, *pro rata*, of amounts which are then due to third parties under obligations incurred in the ordinary course of the Issuer's business (other than amounts specifically provided for elsewhere in this order of priority), including amounts due to the Rating Agencies, the Stock Exchange, the Issuer's auditors and listing agent and any amounts due to the relevant taxation authority in respect of the Issuer's liability to Irish corporation tax (if any);
- (E) *fifth*, in or towards payment of the amounts then due in respect of the Guarantee Fees, premium fees or other amounts payable (other than in reimbursement of amounts paid by Ambac under any of the Financial Guarantees) (if any) to Ambac pursuant to the terms of the Guarantee and Reimbursement Agreement;
- (F) *sixth*, in or towards payment of the amounts then due or to be provided in respect of repayments of any Reinsurer Gross-up Loan made to the Issuer by the Reinsurer, but only to the extent the Issuer has recovered the tax withheld in respect of which the Reinsurer Gross-up Loan was made;
- (G) *seventh*, in or towards payment of the amounts then due to the Swap Provider in respect of the Swap Agreement and any amounts payable in respect of a replacement of a Swap Provider other than amounts to be paid on termination of the Swap Agreement due to an Additional Termination Event, a Termination Event or an Event of Default (each as defined in the Swap Agreement) in respect of the Swap Provider ("**Swap Subordinated Amounts**");
- (H) *eighth*, in or towards payment of (i) firstly, for so long as amounts have been drawn under the Liquidity Facility Agreement and credited to the Liquidity Reserve Account, the amount required to maintain the balance of the Liquidity Reserve Account at an amount equal to the then maximum aggregate principal amount available under the Liquidity Facility Agreement and (ii) then of the amounts then due to the Liquidity Provider in respect of the Liquidity Facility Agreement other than additional amounts payable by virtue of a gross-up following a withholding or deduction for or on account of any tax imposed in Ireland ("**Liquidity Gross-up Amounts**");
- (I) *ninth*, in or towards repayment of any Further Advance under the Subordinated Loan Agreement, to the extent that Refundable Amounts are paid by New Barclays Life to the Reinsurer;
- (J) *tenth*, in or towards payment, *pro rata*, of all amounts of interest which are then due or accrued due under the Notes;
- (K) *eleventh*, to pay or provide for the amounts then due (other than Guarantee Fees, premium fees or other amounts provided for under item (E) above) to Ambac pursuant to the terms of the Guarantee and Reimbursement Agreement;
- (L) *twelfth*, in or towards payment of the Expected Amortisation Amounts due under the Notes on that Interest Payment Date;
- (M) *thirteenth*, in or towards payment of any Deferred Expected Amortisation Amounts due under the Notes on that Interest Payment Date;
- (N) *fourteenth*, in or towards payment of interest payable on the Expenses Loan on that Interest Payment Date;

- (O) *fifteenth*, in or towards payment of any Expenses Loan Amortisation Amount payable in respect of the Expenses Loan on such Interest Payment Date;
- (P) *sixteenth*, in or towards payment of interest accrued in such Interest Period and payable on the Subordinated Loan on that Interest Payment Date;
- (Q) *seventeenth*, to pay or provide for redeeming the Notes *pro rata* and *pari passu*;
- (R) *eighteenth*, in or towards payment of any interest accrued in such Interest Period on the Subordinated Loan (to the extent not taken into account in (Q) above) and any deferred interest from previous Interest Periods under the Subordinated Loan Agreement;
- (S) *nineteenth*, in or towards payment of Liquidity Gross-up Amounts;
- (T) *twentieth*, in or towards payment of Swap Subordinated Amounts;
- (U) *twenty-first*, in or towards payment of principal on the Subordinated Loan on such Interest Payment Date;
- (V) *twenty-second*, to pay the remainder (if any) to the Issuer;

#### *Priority of Payments Following Enforcement*

- (j) Following the delivery of an Enforcement Notice by the Note Trustee or on redemption of the Notes other than in accordance with Condition 6(b) (*Redemption, Purchase and Cancellation – Mandatory Redemption in Part*), the Issuer Security Trustee or Receiver shall (after having first applied all amounts standing to the credit of the Liquidity Reserve Account in or towards payment of all amounts of principal and interest in respect of all outstanding Standby Drawings to the Liquidity Provider and crediting any remaining amounts to the Issuer Transaction Account) apply all monies received in respect of Issuer Secured Obligations in the following order of priority (the “**Issuer Post Enforcement Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher order of priority have been made or provided for in full), in accordance with and as more fully set out in the Issuer Deed of Charge:
  - (i) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts then due, of (i) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Deed of Charge, (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Note Trustee and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Trust Deed;
  - (ii) *second*, in or towards satisfaction, *pro rata*, according to the respective amounts then due of: (i) the fees or other remuneration and indemnity payments (if any) which are then due to each of the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred by any of them (together with interest on those amounts) for which any of them is entitled to be reimbursed or indemnified under the Agency Agreement, (ii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Account Bank and any costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Account Bank Agreement and (iii) the fees or other remuneration and indemnity payments (if any) which are then due to the Issuer Cash Manager and costs, charges, liabilities and expenses incurred by it (together with interest on those amounts) for which it is entitled to be reimbursed or indemnified under the Issuer Cash Management Agreement;
  - (iii) *third*, in or towards satisfaction of the fees, costs, liabilities and expenses (together with interest on those amounts) of the Issuer Administrator for which it is entitled to be reimbursed or indemnified under the Issuer Administration Agreement;
  - (iv) *fourth*, in or towards satisfaction of the amounts then due in respect of the Guarantee Fees, premium, fees or other amounts payable (other than in reimbursement of amounts paid by Ambac under any of the Financial Guarantees) (if any) to Ambac pursuant to the terms of the Guarantee and Reimbursement Agreement;

- (v) *fifth*, in or towards satisfaction of the amounts then due to the Swap Provider under the Swap Agreement other than Swap Subordinated Amounts;
- (vi) *sixth*, in or towards satisfaction of the amounts (other than Liquidity Gross-up Amounts) then due to the Liquidity Provider under the Liquidity Facility Agreement;
- (vii) *seventh*, in or towards satisfaction of all amounts of interest, principal, and other amounts due or accrued due in respect of Refundable Amounts;
- (viii) *eighth*, in or towards satisfaction, *pro rata*, of all amounts of interest, principal, and other amounts due or accrued due in respect of the Notes;
- (ix) *ninth*, in or towards satisfaction of the amounts then due (other than Guarantee Fees, premium fees or other amounts provided for in item (iv) above) to Ambac pursuant to the terms of the Guarantee and Reimbursement Agreement;
- (x) *tenth*, in or towards satisfaction of all amounts of interest, principal, and other amounts due or accrued due in respect of the Expenses Loan;
- (xi) *eleventh*, in or towards satisfaction of all Liquidity Gross-up Amounts;
- (xii) *twelfth*, in or towards satisfaction of all Swap Subordinated Amounts;
- (xiii) *thirteenth*, in or towards satisfaction of all amounts of interest, principal, and other amounts due or accrued due in respect of the Subordinated Loan;
- (xiv) *fourteenth*, to pay the remainder (if any) to the Issuer.

#### 4. COVENANTS

The Issuer has given certain covenants to, *inter alios*, the Note Trustee and the Issuer Security Trustee pursuant to the Trust Deed and the Issuer Deed of Charge, respectively. In particular, except with the prior written consent of the Note Trustee (acting in accordance with Condition 13 (*Modification and Waiver of Breach*)) or as expressly provided in these Conditions, the Trust Documents or any of the other Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

##### *Negative Pledge*

- (a) create or permit to subsist any mortgage, charge, pledge, lien, (unless arising by operation of law) or other encumbrance or security interest of any kind including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction over the whole or any part of its present or future assets, revenues (including any uncalled capital) or undertaking;

##### *Restrictions on Activities*

- (b) carry on any business other than as described in the Offering Circular and in respect of that business, shall not engage in any activity or do anything whatsoever except that the Issuer shall be entitled to:
  - (i) enter into the Transaction Documents to which it is a party and preserve, exercise and/or enforce any of its rights and perform and observe its obligations under and pursuant to the Transaction Documents to which it is a party and under any modifications or supplements thereto;
  - (ii) issue the Notes;
  - (iii) perform any act, incidental to or necessary in connection with any of the above; and
  - (iv) engage in those activities necessary for its continued existence and proper management;

##### *Disposal of Assets*

- (c) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire, any of its assets or undertaking or any interest, right or benefit in respect of any of them or agree or purport to do so;

##### *Indebtedness*

- (d) create, incur or permit to subsist any Indebtedness whatsoever or give any guarantee or indemnity in respect of Indebtedness or of any other obligation of any person;



#### *Dividends, Distributions and Shares*

- (e) pay any dividend or make any other distribution to its shareholders or issue any further shares;

#### *Subsidiaries, Employees and Premises*

- (f) have or form or cause to be formed, any subsidiaries or subsidiary undertakings of any other nature or have any employees or premises;

#### *Merger*

- (g) amalgamate, consolidate or merge with any other person or convey or transfer its assets or undertaking substantially in their entirety to any other person;

#### *No Variation or Waiver*

- (h) permit (i) any of the Transaction Documents to which it is a party to become invalid or ineffective; (ii) the priority of the Issuer Security to be amended, released, postponed or discharged or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, any such Transaction Documents, or (iii) permit any party to any of such Transaction Documents or any other person whose obligations form part of the Issuer Security to be released from its obligations;

#### *Bank Accounts*

- (i) have an interest in any bank account other than the Issuer Accounts and the Share Capital Account, unless that account or interest is charged to the Issuer Security Trustee on terms acceptable to it;

#### *Surrender of Group Relief*

- (j) offer or consent to surrender to any company any amounts which are available for surrender by way of group relief from corporation tax on net profits in any applicable jurisdiction;

#### *Separateness*

- (k) permit or consent to any of the following occurring:
  - (i) its books and records being maintained with or co-mingled with those of any other person or entity;
  - (ii) its bank accounts and the debts represented thereby being co-mingled with those of any other person or entity;
  - (iii) its assets or revenues being co-mingled with those of any other person or entity; or
  - (iv) its business being conducted other than in its own name;and, in addition and without limitation to the above, the Issuer shall or shall procure that, with respect to itself:
  - (A) separate financial statements in relation to its financial affairs are maintained;
  - (B) all corporate formalities with respect to its affairs are observed;
  - (C) separate stationery, invoices and cheques are used;
  - (D) it always holds itself out as a separate entity; and
  - (E) any known misunderstandings regarding its separate identity are corrected as soon as possible;

#### *VAT*

- (l) unless required to do so by law, apply under the Value Added Tax Regulations, 1979 of Ireland, or any similar provision of law in any other jurisdiction to become part of any group with any other company or group of companies for the purposes of Section 8(8) of the Value Added Tax Act 1972, of Ireland, or any act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal that Act and/or those Regulations; or

### *Tax Residency*

(m) become tax resident in any country outside the Republic of Ireland.

In giving any consent to any action referred to in paragraphs (a) to (m) above, the Issuer Security Trustee acting in accordance with Condition 13 may require the Issuer to make any modifications or additions to the provisions of any of the Transaction Documents to which it is a party, or may impose any other conditions or requirements, which the Issuer Security Trustee considers to be expedient (in its absolute discretion) in the interests of the Issuer Secured Creditors.

## 5. INTEREST

### *Period of Accrual*

(a) Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or in the case of the redemption of part only of a Note, that part only of that Note) shall cease to bear interest from and including its due date for redemption, unless, upon due presentation of the Note, payment of the relevant amount of principal or any part of it is improperly withheld or refused. In such event, interest will continue to accrue on that unpaid amount (before and after the date of any judgment) at the rate from time to time applicable to that Note up to (but excluding) the date on which, on further presentation of that Note, payment of the relevant amount of principal is made in full or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the relevant Noteholder in accordance with Condition 17 (*Notices and Information*) that, upon presentation thereof being duly made, such payment will be made (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

### *Interest Payment Dates and Interest Periods*

(b) Interest on each Note is payable quarterly in arrear on each Interest Payment Date in respect of the Interest Period ending on (but excluding) that Interest Payment Date, subject to Condition 7(a) (*Payment in respect of Global Notes*) in accordance with the Trust Deed.

Whenever it is necessary to compute an amount of interest in respect of the Notes for any period (including any Interest Period), such interest shall be calculated on the basis of actual days elapsed and a 365 day year (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365).

### *Rate of Interest*

(c) (i) The rate of interest payable from time to time in respect of the Notes (the “**Rate of Interest**”) will be determined by the Agent Bank in accordance with this Condition 5 (Interest).

(ii) The Rate of Interest in respect of the Notes for each Interest Period shall be the aggregate of:

(A) the Relevant Margin; and

(B) LIBOR.

(iii) For the purposes of these Conditions, the “**Relevant Margin**” shall be 0.40 per cent. per annum.

### *Determination of Rates of Interest and Calculation of Interest Amounts*

(d) The Agent Bank shall, on each Interest Determination Date, determine and as soon as practicable after 11.00 a.m. (London time) notify to the Issuer, the Issuer Cash Manager, the Note Trustee and the Paying Agents in respect of the Notes:

(i) the Rate of Interest applicable to the relevant Interest Period; and

(ii) the aggregate amount of interest due on each Note for the relevant Interest Period, which shall be an amount equal to the product of (A) an amount equal to the product of (aa) the Rate of Interest and (bb) the Principal Amount Outstanding of such Note on the first day of the relevant Interest Period (after giving effect to any Note Principal Payments made by the Issuer on that date) and (B) an amount equal to the quotient of

(aa) the actual number of days in the relevant Interest Period and (2) 365 days (or if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365) (the “Interest Amount”). The resulting figure shall be rounded down to the nearest penny.

#### *Publication of Rate of Interest and Interest Amounts*

- (e) As soon as practicable after making the determination pursuant to Condition 5(d) (*Interest – Determination of Rates of Interest and Calculation of Interest Amounts*), the Agent Bank shall cause the Rate of Interest, and the Interest Amounts applicable to the Notes for the relevant Interest Period and the Interest Payment Date on which that Interest Period will end to be notified to the Stock Exchange (for so long as the Notes are listed on the Stock Exchange) and will cause the same to be published in accordance with Condition 17 (*Notices and Information*). The Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice if the Interest Period is extended or shortened.

#### *Determination or Calculation by Note Trustee*

- (f) If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for the Notes for any Interest Period in accordance with this Condition 5 (*Interest*), the Note Trustee shall:
- (i) determine the Rate of Interest for the Notes in the manner specified in this Condition 5 (*Interest*); and/or
  - (ii) calculate the Interest Amount for the Notes in the manner specified in this Condition 5 (*Interest*),

and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

#### *Agent Bank*

- (g) The Issuer shall ensure that, so long as any of the Notes remains outstanding, there will at all times be an Agent Bank. If the Agent Bank resigns under the Agency Agreement the Issuer may (with the prior written approval of the Note Trustee) or, if the Issuer fails to do so, the Agent Bank may (with the prior approval of the Note Trustee and the Issuer), appoint a successor Agent Bank. If the Agent Bank resigns, its resignation will not take effect until a successor has been appointed and notice of such appointment has been given to the Noteholders in accordance with Condition 17 (*Notices and Information*).

#### *Accrual*

- (h) The amount by which the aggregate amount of interest paid on the Notes on any Interest Payment Date in accordance with this Condition 5 (*Interest*) falls short of the aggregate amount of interest which otherwise would be payable on the relevant Notes on that date, shall accrue interest while it remains outstanding at the relevant Rate of Interest and shall be aggregated with the amount of, and treated for the purposes of, this Condition 5 (*Interest*) as if it were interest due on each such Notes and, subject as provided below, payable on the next succeeding Interest Payment Date.

If, on the Final Maturity Date (or on any earlier redemption of the Notes in full), there remains any such shortfall, the amount of such shortfall will become due and payable on the Final Maturity Date (or, in the case of any earlier redemption of the Notes in full, on the date of such redemption).

#### *Notification to be final*

- (i) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 (*Interest*), whether by the Issuer, the Agent Bank or the Note Trustee, shall (in the absence of wilful default, negligence or fraud) be binding on the Issuer, the Agent Bank, the Note Trustee and all

Noteholders and Couponholders and (in the absence of wilful default, negligence or fraud) the Issuer, the Agent Bank and the Note Trustee shall not have any liability to the Noteholders or Couponholders in connection with the exercise or non-exercise by any of them of their rights, powers, duties and discretions under these Conditions.

## 6. REDEMPTION, PURCHASE AND CANCELLATION

### *Final Redemption*

- (a) Unless the Notes have been previously redeemed in full and cancelled, the Issuer shall redeem each of the Notes at their Principal Amount Outstanding on the Final Maturity Date.

### *Mandatory Redemption in Part*

- (b) If, on any Issuer Report Date prior to the service of an Enforcement Notice, the Issuer determines that there will be Available Redemption Funds on the next Interest Payment Date, the Issuer shall:
- (i) notify Ambac (for so long as Ambac is a Controlling Creditor), the Note Trustee and the Principal Paying Agent by no later than 10.00 a.m. on that Issuer Report Date that it intends to redeem all or part of the Notes, specifying the amount to be redeemed; and
  - (ii) on the immediately succeeding Interest Payment Date, apply any Available Redemption Funds in redeeming the Notes *pro rata* to their Principal Amount Outstanding;

Each Note will be redeemed in an amount calculated in accordance with Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*) together with interest and other amounts (if any) accrued to the date fixed for redemption. Notice of redemption under this Condition 6(b) (*Redemption, Purchase and Cancellation – Mandatory Redemption in Part*) will be given to Noteholders in accordance with Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*).

### *Redemption for taxation or other reasons*

- (c) If the Issuer at any time satisfies the Note Trustee and (for so long as Ambac is a Controlling Creditor) Ambac that:
- (i) on the next Interest Payment Date, (A) the Issuer would be required to deduct or withhold from any payment of principal or interest on the Notes (other than where the relevant holder has some connection with the United Kingdom or Ireland other than the holding of Notes or related coupons); (B) the Issuer would be required to deduct or withhold from any payment of principal, interest or other sum due and payable under the Subordinated Loan Agreement, the Liquidity Facility Agreement or the Expenses Loan Agreement; (C) the Issuer or the Swap Provider would be required to deduct or withhold from any payment under the Swap; (D) the Reinsurer would be required to deduct or withhold from any payment under the Reinsurer Loan Agreement or the Reinsurance Agreement; or (E) New Barclays Life would be required to deduct or withhold from any payment under the Reinsurance Agreement, in each case any amount for or on account of any present or future taxes, duties, assessments or governmental charges of any nature imposed, levied, collected, withheld or assessed by the United Kingdom or Ireland or (in each case) any political sub-division of it or any authority of it or in it; or
  - (ii) the Issuer, by reason of a change in tax law (or in the application or official interpretation of any tax law), would not be entitled to relief for tax purposes in the United Kingdom or Ireland for any amount which it is obliged to pay, or would be treated as receiving for tax purposes in the jurisdiction of tax residency of the Issuer an amount which it was not entitled to receive, under the Swap Agreement; or
  - (iii) by reason of a change in law (or the application or official interpretation thereof), it has become or will become unlawful in the United Kingdom or Ireland for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Reinsurer Loan Agreement;

then the Issuer shall, in order to avoid the relevant event described in (i), (ii) or (iii) above, use all reasonable endeavours to arrange a substitution of a company incorporated in another jurisdiction as principal debtor under the Notes, which is approved in writing by the Note Trustee and the Subordinated Loan Provider, and subject to obtaining (i) the consent of Ambac (for so long as Ambac is a Controlling Creditor) and (ii) the Rating Agencies have confirmed that the ratings of the Notes (including the Unguaranteed Rating) in effect immediately prior to substitution would not be adversely affected by such substitution.

If the Issuer is unable to arrange such a substitution which would have the result of avoiding the relevant event described above, then the Issuer may, on any Interest Payment Date immediately following its having satisfied the Note Trustee, the Subordinated Loan Provider and Ambac that such event has occurred, redeem all, but not some only, of the Notes at their Principal Amount Outstanding together with accrued but unpaid interest to (but excluding) the date of redemption, provided that:

- (A) the Issuer has given not more than 60 nor less than 30 days' notice (or, in the case of an event described in (ii) above, such shorter period expiring on or before the latest date permitted by relevant law) to the Note Trustee and the Noteholders in accordance with Condition 17 (*Notices and Information*); and
- (B) the Issuer has delivered to the Note Trustee, the Subordinated Loan Provider and Ambac (for so long as Ambac is a Controlling Creditor), prior to the giving of the notice referred to in sub-clause (i) above, a certificate signed by two directors of the Issuer to the effect that it will have the necessary funds, not subject to the interest of any other person, available for the purpose and to discharge any amounts required under the Issuer Post-Enforcement Priority of Payments to be paid in priority to, or *pari passu* with, and including the Subordinated Loan.

*Note Principal Payments, Principal Amount Outstanding and Pool Factor*

- (d) The aggregate principal amount redeemable in respect of the Notes on any Interest Payment Date (the "**Note Principal Payment**") under Condition 6(b) (*Redemption, Purchase and Cancellation – Mandatory Redemption in Part*) shall be the amount of the Available Redemption Funds on the Issuer Report Date immediately preceding that Interest Payment Date to be applied in redemption of Notes. Each Note will be redeemed in an amount equal to the Note Principal Payment divided by the number of Notes and rounded down to the nearest pound.

On each Issuer Report Date (or as soon as practicable after), the Agent Bank shall determine in respect of each Note (i) the amount of any Note Principal Payment (if any) due on the Interest Payment Date next following such Issuer Report Date, (ii) the Principal Amount Outstanding of each such Note and (iii) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note (as referred to in (ii) above) and the denominator is 100,000.

The Agent Bank will cause each determination of a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be notified by not less than three Business Days prior to the relevant Interest Payment Date to the Issuer, the Note Trustee, the Paying Agents and (for so long as the Notes are listed on the Stock Exchange) the Stock Exchange, and will immediately cause notice of each such determination to be given in accordance with Condition 17 (*Notices and Information*) by not later than three Business Days prior to the relevant Interest Payment Date. If no Note Principal Payment is due to be made on the Notes on any Interest Payment Date falling in April a notice to this effect will be given by the Agent Bank to the Noteholders.

If the Agent Bank does not at any time for any reason determine a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor for the Notes in accordance with this Condition 6 (*Redemption, Purchase and Cancellation*), the Note Trustee shall in respect of the Notes:

- (i) determine the Note Principal Payment for the Notes in the manner specified in this Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*);
- (ii) determine the Principal Amount Outstanding for the Notes in the manner specified in this Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*); and/or

- (iii) determine the Pool Factor for the Notes in the manner specified in this Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*).

Any such determination shall be deemed to have been made by the Agent Bank.

#### *Notice of Redemption*

- (e) A notice of redemption under Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption for taxation or other reasons*) and Condition 6(d) (*Redemption, Purchase and Cancellation – Note Principal Payments, Principal Amount Outstanding and Pool Factor*) shall be irrevocable and the Issuer shall be bound to redeem the relevant Notes in accordance with these Conditions on expiry of the notice.

#### *No Purchase by Issuer*

- (f) The Issuer will not be permitted to purchase any of the Notes.

#### *Cancellation*

- (g) All Notes redeemed under this Condition or otherwise surrendered under Condition 16 (*Replacement of Notes, Coupons and Talons*) will be cancelled upon redemption or surrender, together with any unmatured Coupons and any Talons relating to them which are attached to them or surrendered with them, and may not be resold or re-issued.

## 7. PAYMENTS

#### *Payments in respect of Global Notes*

- (a) Payments of interest on the Temporary Global Notes will only be made upon certification of non-US beneficial ownership unless such certification has already been made. On and after the Exchange Date, no payment will be made on any Temporary Global Note unless exchange for an interest in the corresponding Permanent Global Note has been improperly withheld or refused.

Payments of principal, interest and other amounts (if any) in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Notes at the specified office of the Principal Paying Agent. A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Note by the Issuer (or by the Principal Paying Agent on its behalf). Such endorsement shall be *prima facie* evidence that such payment has been made in respect of the Global Notes.

#### *Payments of Principal in respect of Definitive Notes*

- (b) Payments of principal in respect of the Definitive Notes (if issued) will be made against presentation and (in the case of final redemption, provided that payment is made in full) surrender of the Definitive Notes (and any unmatured Coupons and Talons) at the specified office of any Paying Agent.

#### *Payments of Interest in respect of Definitive Notes*

- (c) Payments of interest in respect of the Definitive Notes will (subject as provided in Condition 7(f) (*Payments – Unmatured Coupons and Talons Void*) and Condition 7(g) (*Payments – Payment of Interest on Withheld Amounts*) below) be made against presentation and (provided that payment is made in full) surrender of the relevant Coupons at the specified office of any Paying Agent.

#### *Currency of Payment*

- (d) Payments of principal and interest in respect of the Notes will be made in Sterling by cheque drawn on a bank in the United Kingdom or, at the option of the Noteholder, by transfer to a Sterling account maintained by the payee.

*Payments subject to the Issuer Deed of Charge and all Fiscal Laws*

- (e) Payments of principal and interest in respect of the Notes are subject in all cases to the Issuer Priorities of Payments and the Issuer Deed of Charge and to any fiscal or other laws and regulations applicable thereto.

*Unmatured Coupons and Talons Void*

- (f) On the date on which any Definitive Note becomes due and payable in full, unmaturred Coupons and Talons relating entirely to unmaturred Coupons (whether or not attached to such Definitive Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption for any Definitive Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of the relevant Definitive Note.

*Payment of Interest on Withheld Amounts*

- (g) If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, or a shortfall occurs pursuant to Condition 5(h) (*Interest – Accrual*), the interest which continues to accrue in respect of such Note in accordance with Condition 5(a) (*Interest – Period of Accrual*) or Condition 5(h) (*Interest- Accrual*) (as the case may be) will become due and payable on the date on which the payment of such principal or such shortfall (as the case may be) becomes due and payable and such interest will be paid against presentation of such Note, at the specified office of any Paying Agent in accordance with this Condition 7 (*Payments*).

*Paying Agents*

- (h) The initial Principal Paying Agent and the other Paying Agents and their respective initial specified offices are specified in these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee and following written notice to Ambac, at any time to vary or terminate the appointment of the Principal Paying Agent and/or the other Paying Agents and to appoint additional or other paying agents. If and so long as the Notes are listed on the Stock Exchange and any Note is outstanding, the Issuer will at all times maintain a paying agent with a specified office in Ireland. The relevant Agent shall at its own expense on behalf of the Issuer not less than 14 days prior to the date on which any change in its specified office or any change in or addition to the Paying Agents is to take effect give notice of such change to the Noteholders in accordance with Condition 17 (*Notices and Information*). On 3 January 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. This directive is scheduled to be applied by Member States from 1 January 2005 provided certain non-EU countries adopt similar provisions on the same date. Pursuant to the directive Austria, Belgium and Luxembourg may apply withholding systems for a transitional period in relation to payments of interest or other similar income. The Issuer agrees that there will at all times be a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the directive.

*Exchange of Talons*

- (i) On or after the Interest Payment Date of the final Coupon which is (or was at the time of issue) part of any coupon sheet relating to the Notes (each a “**Coupon Sheet**”), the Talon which is (or was at the time of issue) part of such Coupon Sheet may be surrendered at the specified office of any of the Paying Agents in exchange for a further Coupon Sheet (including a further Talon, if applicable, but excluding any Coupons which shall have become void). Upon the due date for redemption in full of any Definitive Note, any unmaturred Talon relating to it shall become void and no Coupons will be delivered in respect of such Talon.

*Payments on Business Days*

- (j) If any payment under a Note or Coupon is due and payable and the Note or Coupon is presented for payment on a day which is not a business day in the place of presentation, the holder of the Note or Coupon shall not be entitled to payment in such place until the next succeeding business day in that place and no further payments or additional amounts by way of interest, principal or otherwise shall be due in respect of the Note or, as the case may be, the Coupon.

### *Change in Currency*

- (k) (i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Notes outstanding at the time of any such change and which are expressed in Sterling shall be converted into, and/or any amount becoming payable under the Notes thereafter as specified in these Conditions shall be paid in, the currency or currency unit of the United Kingdom, and in the manner designated by the Principal Paying Agent. Any such conversion shall be made at the official rate of exchange recognised for that purpose by the Bank of England.
- (ii) Where such a change in currency occurs, the Notes and Coupons then outstanding and the Conditions shall be amended in the manner agreed by the Issuer, Ambac (for so long as Ambac is a Controlling Creditor), the Note Trustee and the Principal Paying Agent so as to reflect that change and, so far as is practicable, to place the Issuer, Ambac (for so long as Ambac is a Controlling Creditor), the Noteholders and the Couponholders in the same position they would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency).

All amendments made pursuant to this Condition 7(k) (*Payments – Change in Currency*) shall be binding upon the Noteholders, the Couponholders and the Talonholders and none of the Issuer, the Note Trustee, the Issuer Security Trustee and the Paying Agents shall be liable to any Noteholder, Couponholder, Talonholder or other person for any costs, losses or expenses in relation to or resulting from the credit or transfer of such other currency or currency unit or any currency conversion or rounding effected in connection therewith.

## **8. PRESCRIPTION**

### *General*

- (a) After the date on which a Note or Coupon becomes void in its entirety, no claim may be made in respect of it.

### *Principal*

- (b) Claims for payment of principal in respect of Notes shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date.

### *Interest*

- (c) Claims for interest in respect of Notes, shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

## **9. TAXATION**

- (a) All payments in respect of the Notes and the Coupons will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by the law of the jurisdiction of the tax residency of the Issuer to make any payment in respect of the Notes subject to any withholding or deduction for or on account of any such taxes, duties or charges.
- (b) In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to the Noteholders or Couponholders in respect of such withholding or deduction.



## 10. ISSUER EVENTS OF DEFAULT

### *Determination of an Issuer Event of Default*

- (a) At any time after the occurrence of any of the events specified in Condition 10(b) (*Issuer Events of Default – Events*) for as long as the Notes are outstanding, the Note Trustee:
- (i) shall (A) for so long as Ambac is a Controlling Creditor, if so required in writing by Ambac; or (B) if Ambac is no longer a Controlling Creditor, if so requested in writing by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding or if so directed by or pursuant to an Extraordinary Resolution of the Notes then outstanding; or
  - (ii) may, in its absolute discretion, in the event that Ambac is no longer a Controlling Creditor;
  - (iii) and subject, in each case, to being indemnified to its satisfaction in accordance with the Trust Deed,
- give a notice (an “**Enforcement Notice**”) to the Issuer declaring the Notes to be due and repayable.

### *Events of Default*

- (b) The occurrence of any of the following events shall be an “**Issuer Event of Default**”:
- (i) default is made for a period of three Business Days or more in the payment of the principal of, or for a period of five Business Days or more in the payment of any interest or other amount (if any) on the Notes then outstanding on the date on which it ought to be paid in accordance with these Conditions; or
  - (ii) the Issuer fails duly to perform or observe any other obligation binding upon it under the Notes, the Trust Deed, the Issuer Deed of Charge or any of the other Transaction Documents to which it is a party, and such failure (A) is in the opinion of the Note Trustee (or, in the case of the Issuer Deed of Charge, the Issuer Security Trustee) incapable of remedy or (B) is, in the opinion of the Note Trustee (or, in the case of the Issuer Deed of Charge, the Issuer Security Trustee), capable of remedy, remains unremedied for a period of 21 days following the service by the Note Trustee (or the Issuer Security Trustee, as applicable), on the Issuer of notice requiring the same to be remedied and provided that the Note Trustee shall have certified to the Issuer and Ambac (for so long as Ambac is a Controlling Creditor) that such event is, in its opinion, materially prejudicial to the interests of the Noteholders or Ambac (for so long as Ambac is a Controlling Creditor); or
  - (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (iv) below, ceases or, through an official action of the Board of Directors of the Issuer, threatens to cease, to carry on business or being unable to pay its debts as and when they fall due (within the meaning of Section 214 of the Irish Companies Act, 1963 (as amended by Section 123 of the Irish Companies Act, 1990)); or
  - (iv) an order is made or an effective resolution passed for the winding up of the Issuer except a winding up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Noteholders; or
  - (v) (A) any steps are taken (whether out of court or otherwise) against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for the appointment of an accountant, examiner or for an administration order or giving notice of the intention to appoint or any steps taken with the view to the appointment of an administrator (whether out of court or otherwise)) and such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success; or
  - (B) an administration order is granted or an examiner, an administrative receiver or other receiver, liquidator, administrator or other similar official is appointed (whether out of court or otherwise) in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer; or

- (C) an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Issuer; or
  - (D) a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) is not being discharged or does not otherwise cease to apply within 14 days; or
  - (E) the Issuer initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, administration, examinership, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors, generally; or
- (vi) any event occurs which under any applicable laws has an analogous effect to any of the events referred to in paragraphs (iii), (iv) and (v) above; or
  - (vii) the Issuer Security (or any part thereof) is terminated or is or becomes void, illegal, invalid or unenforceable or any person is entitled to terminate, rescind or avoid all of or any material provision of any Transaction Document and alternative arrangements approved by an Extraordinary Resolution of the holders of the Notes are not made within 60 days of the date of the Note Trustee requiring alternative arrangements to be made or of such an event or of a person becoming so entitled; or
  - (viii) an Ambac Event of Default occurs.

#### *Acceleration*

- (c) Upon delivery of an Enforcement Notice, the Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest up to (but excluding) the earlier of (i) the date on which all principal, interest and other amounts (if any) are paid in full and (ii) the seventh day after notice has been given to the Noteholders in accordance with Condition 17 (*Notices and Information*) that the full amount has been received by the Principal Paying Agent or the Note Trustee.

## **11. ENFORCEMENT**

- (a) At any time after an Enforcement Notice has been delivered, the Note Trustee without further notice, shall, if so directed in writing by Ambac (for so long as it is a Controlling Creditor) and, at any other time, may at its discretion but shall if so directed by the holders of not less than a majority in aggregate of the Principal Amount Outstanding of the Notes or if so directed by an Extraordinary Resolution of the Noteholders, direct the Issuer Security Trustee to take such proceedings against the Issuer to enforce the Issuer Security (provided that it shall not be bound to direct the Issuer Security Trustee to take such proceedings against the Issuer unless it shall have been indemnified and/or secured to its satisfaction) and the Issuer Security Trustee shall enforce the Issuer Security in accordance with the provisions of the Issuer Deed of Charge.
- (b) The Note Trustee shall provide the Issuer Security Trustee with all notices and demands in relation to the Notes in accordance with the Trust Deed.
- (c) No Noteholder, Couponholder or Talonholder shall be entitled to take any proceedings or other action directly against the Issuer or Ambac, provided that:
  - (i) if the Note Trustee, having become bound to give an Enforcement Notice, fails to do so within a reasonable time and that failure is continuing; and
  - (ii) it is the holder of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Notes then outstanding,

then a Noteholder may give an Enforcement Notice in accordance with Condition 10 (*Issuer Events of Default*) and direct the Note Trustee to instruct the Issuer Security Trustee to enforce the Issuer Security.

## 12. MEETINGS OF NOTEHOLDERS

### *Convening*

- (a) The Trust Deed contains provisions for convening Meetings of Noteholders to consider any matter relating to the Notes, including the modification of any provision of these Conditions, the Trust Deed or the other Transaction Documents. Any such modification may be made if sanctioned by an Extraordinary Resolution.

### *Quorum and Rules*

- (b) Subject as provided below, the quorum at any Meeting of the Noteholders for passing an Extraordinary Resolution in respect of any matter other than a Basic Terms Modification will be two or more persons representing or holding in aggregate more than 50 per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes or at any adjourned Meeting two or more persons representing or holding Notes, whatever the aggregate Principal Amount Outstanding.

The quorum at any Meeting of the Noteholders for passing an Extraordinary Resolution in respect of a Basic Terms Modification shall be two or more persons representing or holding in aggregate at least 75 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding or at any adjourned Meeting two or more persons representing or holding at least  $33\frac{1}{3}$  per cent. in aggregate of the aggregate Principal Amount Outstanding of the Notes then outstanding.

The majority required for an Extraordinary Resolution shall be a majority of not less than 75 per cent. of the votes cast on that resolution, whether on a show of hands or a poll.

- (c) For so long as it is a Controlling Creditor, Ambac shall have the right to direct the Note Trustee in respect of the interests of the Noteholders save in respect of any Basic Terms Modification or Reserved Matters.

When acting at the instruction of Ambac, the Note Trustee shall have no duty to take into account the interests of Noteholders and no liability for acting in accordance with such directions.

### *Resolutions in Writing*

- (d) A Written Resolution shall take effect as if it were an Extraordinary Resolution.

## 13. MODIFICATION AND WAIVER OF BREACH

### *Modification without consent*

- (a) The Note Trustee may, without the consent of the Noteholders, the Couponholders or the Talonholders agree to any modification (other than a Basic Terms Modification) to the Trust Deed, the Notes (including these Conditions), or any of the other Transaction Documents if, in the opinion of the Note Trustee:
- (i) such modification is not materially prejudicial to the interests of the Noteholders (which may be determined by Ambac by virtue of Condition 12(d)); and
  - (ii) save in respect of Reserved Matters, for so long or Ambac is a Controlling Creditor, Ambac has given its prior written consent to such modification (which consent will be deemed to have been given if not refused in writing to the Note Trustee within 15 Business Days of receipt by Ambac of notice of such proposed modification); and
  - (iii) each Rating Agency has confirmed in writing that the then current ratings' by such Rating Agency of the Notes will not be downgraded as a result of such modification; or
- (b) such modification is to correct a manifest error or is of a formal, minor or technical nature.

### *Basic Terms Modification*

- (c) No Basic Terms Modification will be effective in respect of the Notes without the prior written consent of Ambac having been obtained.

#### *Waiver of breach without consent*

- (d) The Note Trustee may, without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, but only if and in so far as in its opinion the interests of the Noteholders shall not be materially prejudiced (which may be determined by Ambac by virtue of Condition 12(c)) thereby:
- (i) authorise or waive, on such terms and subject to such conditions (if any) as shall seem fit and proper to it, any proposed breach or breach of any of the covenants or provisions contained in the Trust Deed, the Notes, the Coupons, the Talons or any of the other Transaction Documents; or
  - (ii) determine that any Issuer Event of Default or Potential Issuer Event of Default shall not be treated as such,

without any consent or sanction of the Noteholders, the Couponholders or the Talonholders, provided always that:

- (i) save in the case of Reserved Matters or any proposed breach or breach which would have the same effect as a Basic Terms Modification, for so long as Ambac is a Controlling Creditor, Ambac has given its prior written consent (which consent will be deemed to have been given if not refused in writing to the Note Trustee within 15 Business Days of receipt by Ambac of notice of such proposed authorisation, waiver or modification); and
- (ii) each Rating Agency has confirmed in writing that its then current ratings of the Notes will not be downgraded as a result of such authorisation, waiver or determination.

#### *Binding Nature and Notice*

- (e) Any modification, waiver, authorisation or determination made pursuant to this Condition shall be binding on the Noteholders, the Couponholders and the Talonholders, Ambac and the other Issuer Secured Creditors and, unless the Note Trustee agrees otherwise, any such modification or waiver shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 17 (*Notices and Information*).

#### **14. SUBSTITUTION OF PRINCIPAL DEBTOR**

The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, without the consent of the Noteholders, Couponholders, Talonholder but subject to obtaining the prior written consent of Ambac (for so long as Ambac is a Controlling Creditor), to the substitution including without limitation pursuant to Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption for taxation and other reasons*) of another body corporate in place of the Issuer (or of any previous substitute) as principal debtor in respect of the Trust Deed, the Notes, the Coupons and the Talons. Any such body corporate shall be a newly formed single purpose company and will be required to undertake to be bound by provisions corresponding to those set out in the Trust Deed, the Notes, the Coupons and the Talons.

In the case of a substitution pursuant to this Condition 14 (*Substitution of Principal Debtor*), the Note Trustee may in its absolute discretion and without the consent of the Noteholders, the Couponholders or the Talonholders, agree to a change of the law governing the Notes, the Coupons, the Talons, the Trust Deed and/or any of the other Transaction Documents provided that such change, in the opinion of the Note Trustee, would not be materially prejudicial to the interests of the Noteholders and Ambac consents (for so long as Ambac is a Controlling Creditor) and the Rating Condition is satisfied.

#### **15. NOTE TRUSTEE, ISSUER SECURITY TRUSTEE AND PAYING AGENTS**

##### *Note Trustee's and Issuer Security Trustee's Right to Indemnity*

- (a) The Trust Deed and the Issuer Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Issuer Security Trustee and provide that the Note Trustee and the Issuer Security Trustee are each, respectively, entitled to be indemnified and/or secured and relieved from responsibility in certain circumstances and to be paid or reimbursed for any liabilities incurred by them in priority to the claims of the

Noteholders. In addition, the Note Trustee and the Issuer Security Trustee are each, respectively, entitled to enter into business transactions with the Issuer and any entity relating to the Issuer and any other party to the Transaction Documents without accounting for any profit.

*Note Trustee, Issuer Security Trustee and Issuer Security*

- (b) Neither the Note Trustee nor the Issuer Security Trustee shall be responsible for matters relating to the Issuer Security or the Issuer Charged Property including without limitation the creation of, title to, sufficiency of or the registration, perfection or priority of the Issuer Security or Issuer Charged Property.

*Removal and Replacement of Note Trustee and Issuer Security Trustee*

- (c) There shall at all times be a Note Trustee and an Issuer Security Trustee and each of the Trust Deed and the Issuer Deed of Charge provide that the retirement or removal of any Note Trustee or Issuer Security Trustee shall not become effective unless and until a replacement Note Trustee or Issuer Security Trustee (as the case may be) is appointed.

*Paying Agents Solely Agents of Issuer*

- (d) In acting under the Agency Agreement and in connection with the Notes, the Coupons or the Talons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Note Trustee and do not assume any fiduciary duty or other obligation towards or have any relationship of agency or trust for or with any of the Noteholders, Couponholders or Talonholders.

## 16. REPLACEMENT OF NOTES, COUPONS AND TALONS

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any of the Paying Agents upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and/or the relevant Paying Agent may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## 17. NOTICES AND INFORMATION

*Valid Notices*

- (a) Any notice to Noteholders shall be validly given if such notice is published in a leading English language daily newspaper having general circulation in London (which is expected to be *The Financial Times*) and, for so long as the Notes are listed on the Stock Exchange and the rules of that exchange so require, in a leading English language daily newspaper having general circulation in Ireland (which is expected to be *The Irish Times*) or, if this is not practicable, in another leading English language newspaper as the Note Trustee shall approve having general circulation in Ireland. 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 in the manner required in the newspaper referred to above.

*Notices While Notes in Global Form*

- (b) For so long as any of the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant accountholders rather than by publication as required by Condition 17(a) (*Notices and Information – Valid Notices*). Any notice delivered to Euroclear and/or Clearstream, Luxembourg shall be deemed to have been given to Noteholders on the seventh day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be). So long as the Notes are listed on the Stock Exchange and the rules of that exchange so require, notices will also be published in a leading English language daily newspaper having general circulation in Ireland (which is expected to be *The Irish Times*). 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 in the manner required in the newspaper referred to above.

#### *Notices on Bloomberg Screen*

- (c) Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Amount, a Note Principal Payment, a Principal Amount Outstanding or a Pool Factor or that an Enforcement Notice has been given shall also appear on a page on Bloomberg or such other medium for the electronic display of data as may be approved by the Note Trustee and notified to the Noteholders in accordance with Condition 17(a) (*Notices and Information – Valid Notices*) or Condition 17(b) (*Notices and Information – Notices While Notes in Global Form*).

#### *Other Methods for Notice*

- (d) The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

#### *Copy of Notices*

- (e) A copy of each notice given in accordance with this Condition 17 (*Notices and Information*) shall be provided to the Rating Agencies and, for so long as the Notes are listed on the Stock Exchange and the rules of that exchange so require, the Stock Exchange.

#### *Couponholders and Talonholders deemed to have notice*

- (f) The Couponholders and Talonholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

#### *Noteholder Information*

- (g) The Issuer shall provide the Note Trustee, the Principal Paying Agent and the other Paying Agents with three copies of:
  - (i) its audited annual financial statements (including balance sheet, profit and loss and cashflow statements) as soon as they become publicly available (together with the related auditors' report); and
  - (ii) on or before each Interest Payment Date falling in April, the Investor Report.

The audited annual financial statements (together with the related auditors' report) and the Investor Report shall be available for inspection by the Noteholders on any business day at the specified office for the time being of the Principal Paying Agent and the other Paying Agents or such other place as the Issuer may specify.

### **18. DETERMINATIONS CONCLUSIVE**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained, whether by the Reference Banks (or any of them), the Agent Bank or the Note Trustee shall (in the absence of negligence, wilful default or fraud) be binding on the Issuer, the Reference Banks, the Agent Bank, the Note Trustee, the Issuer Cash Manager, the Noteholders, the Couponholders, the Talonholders and Ambac and (in the absence of negligence, wilful default or fraud) no liability to the Noteholders, Couponholders, Talonholders or Ambac shall attach to the Reference Banks, the Agent Bank or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

- (a) to take or join any person in taking steps against the Issuer or Ambac for the purpose of obtaining payment of any amount due from the Issuer to it; or
- (b) to initiate or join any person in initiating any Insolvency Proceedings in relation to the Issuer or the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any substantial part of the undertakings or assets of the Issuer; or
- (c) to take any steps or proceedings that would result in either of the Issuer Priorities of Payments in the Issuer Deed of Charge not being observed.

### **19. LIMIT ON RECOURSE AND NON-PETITION**

The provisions relating to limit on recourse and non-petition in the Issuer Deed of Charge shall apply as if set out herein, *mutatis mutandis*.

## **20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Except as provided below, no person shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of these Notes.

## **21. GOVERNING LAW**

The Trust Deed, the Notes, the Coupon, the Talons, the Ambac Financial Guarantee, the Issuer Deed of Charge, the Agency Agreement and the other Transaction Documents (other than the Issuer Administration Agreement and the Reinsurer Administration Agreement) and the relationship between the parties shall be governed by, and interpreted in accordance with, English law.

The Issuer Administration Agreement, the Reinsurer Administration Agreement, the Reinsurer Reinsurance Bank Account Agreement and the Reinsurer Funding Bank Account Agreement are governed by, and construed in accordance with, the laws of the Republic of Ireland.

## FORM OF THE NOTES

### General

The Notes will initially be represented by a Temporary Global Note without Coupons or Talons attached.

On the Closing Date the Temporary Global Note will be deposited on behalf of the subscribers of the Notes with a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg. Upon deposit of the Temporary Global Note, Euroclear or Clearstream, Luxembourg (as the case may be) will credit each subscriber of Notes with the principal amount of Notes for which it has subscribed and paid.

Interests in the Temporary Global Note will be exchangeable no earlier than the first day following the expiry of forty days after the Closing Date (the “**Exchange Date**”), for interests in a Permanent Global Note without Coupons or Talons attached to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Notes are not US persons or persons who have purchased such interests for resale to any US person, as required by US Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg (as the case may be) has given a like certification (based on the certifications it has received) to the Principal Paying Agent. On the first exchange of an interest in the Temporary Global Note for an interest in the Permanent Global Note, such Permanent Global Note will be deposited with the Common Depository.

References herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Note Trustee.

### Issue of Notes in definitive form

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for Notes in definitive form if either of the following events occurs (each an “**Exchange Event**”):

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in the laws or regulation of Ireland (or any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form,

in which case the Issuer will deliver definitive Notes with (where applicable) Coupons and Talons attached on issue. Such definitive Notes will be issued to the holder of the relevant Permanent Global Note against its surrender at the specified office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

### Legend

The Notes, Coupons and Talons will bear the following legend:

*“Any United States Person (as defined in the Internal Revenue Code of the United States of America) 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 of the United States of America”.*

The sections referred to in the legend provide that United States holders will not, with certain exceptions, be permitted to deduct any loss and will not be eligible for favourable capital gains treatment with respect to any gain realised on a sale, exchange or redemption of any Note, Coupon or Talon.



# TAXATION

## 1. IRISH TAXATION

*The following summary is based on the laws and practices currently in force in Ireland. It does not purport to be, and is not, a complete description of all of the tax considerations that may be relevant to a decision to subscribe for, buy, hold, sell, redeem or dispose of the Notes. Where it refers to the tax position of investors that reference is only to investors beneficially owning their Notes and the interest thereon. This summary should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile. Prospective investors should be aware that the anticipated tax treatment in Ireland summarised below may change.*

### Taxation of the Issuer

#### *Corporation tax*

In general, Irish companies must pay corporation tax on their income at the rate of 12.5 per cent. in relation to trading income and 25 per cent. in relation to non-trading income. However, Section 110 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides for special treatment in relation to qualifying companies. A qualifying company means a company:

- (a) which is resident in Ireland;
- (b) which either acquires qualifying assets from a person, holds or manages qualifying assets as a result of an arrangement with another person or has entered into a legally enforceable arrangement with another person which itself constitutes a qualifying asset;
- (c) which carries on in Ireland a business of holding qualifying assets or the management of qualifying assets or both;
- (d) which, apart from activities ancillary to that business, carries on no other activities in Ireland;
- (e) in relation to which the market value of qualifying assets held or managed by the company or the market value of qualifying assets in respect of which the company has entered into legally enforceable arrangements is not less than Euro 10,000,000 on the day on which the qualifying assets are first acquired, first held, or a legally enforceable arrangement in respect of the qualifying assets is entered (which is itself a qualifying asset); and
- (f) which has notified the Revenue Commissioners in the prescribed manner that it intends to be a qualifying company;

but a company shall not be a qualifying company if any transaction is carried out by it otherwise than by way of a bargain made at arm’s length apart from where that transaction is the payment of consideration for the use of principal (other than where that consideration is paid to certain companies within the charge to Irish corporation tax as part of a scheme of tax avoidance).

A “**qualifying asset**”, in relation to a qualifying company, means an asset which consists of, or of an interest in, a financial asset.

If a company is a qualifying company for the purposes of Section 110 of TCA 1997, then profits arising from its activities shall be treated as annual profits and gains within Schedule D and shall be chargeable to corporation tax under Case III at a rate of 25%. However, for that purpose the profits shall be computed in accordance with the provisions applicable to Case I of that Schedule. On this basis and on the basis that the interest is not paid to certain companies within the charge to Irish corporation tax as part of a scheme of tax avoidance, then the interest on the Notes issued will be deductible in determining the taxable profits of the company.

The Issuer will be a qualifying company for the purposes of Section 110 of the TCA 1997.

#### *Withholding tax on interest*

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of yearly interest (payment of interest in respect of a debt where the maturity of the debt is not predetermined as being less than one year), made by an Irish company which would include interest payable on the Notes.

In respect of yearly interest, Section 246 of the TCA 1997, as amended (“Section 246”) provides certain exemptions from this general obligation to withhold tax. Section 246 provides an exemption in respect of interest payments by a qualifying company within the meaning of Section 110 of the TCA 1997 to a person resident in a relevant territory except where such person is a company and the interest is paid to the company in connection with a trade or business carried on in Ireland by that company through a branch or agency.

Also Section 246 provides an exemption where interest is paid by a company in the ordinary course of a trade or business carried on by it to a company resident in a relevant territory.

A relevant territory for this purpose is a Member State of the European Communities, other than Ireland, or not being such a Member State, a territory with which Ireland has entered into a double tax treaty. As of the date of this Information Memorandum, Ireland has entered into a double tax treaty with each of Australia, Austria, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, India, Israel, Italy, Japan, Korea (Republic of), Latvia, Lithuania, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, United Kingdom, U.S.A. and Zambia. A tax treaty with Croatia was signed on 21 June, 2002, it has been ratified by the Republic of Ireland and it is expected that it will be ratified by Croatia during 2003. Negotiations for agreements with Egypt, Greece, Iceland, Malta and Singapore are completed, it is expected that these will also be signed and ratified during 2003. New treaties with Argentina, Turkey and Ukraine are in the course of being negotiated.

Separately, an exemption from withholding on interest payments exists under Section 64 of the TCA, 1997 for certain securities (“quoted Eurobonds”) issued by a body corporate (such as the Issuer) which are in bearer form, interest bearing and quoted on a recognised stock exchange (which would include the Irish Stock Exchange).

Any interest paid on such quoted Eurobonds can be paid free of withholding tax on yearly interest provided that:

- (a) the person by or through whom the payment is made is not in Ireland; or
- (b) the payment is made by or through a person in Ireland, and either:
  - (i) the quoted Eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are so recognised); or
  - (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made an appropriate written declaration to a relevant person (such as an Irish paying agent) in the prescribed form.

So long as the Notes are in bearer form (whether as Global Notes or as Notes in definitive form), are quoted on a recognised stock exchange and are held in a recognised clearing system, interest on the Notes can be paid by any paying agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax on yearly interest.

#### *Encashment tax*

Interest on any Note that is paid to an agent in Ireland on behalf of a holder of the relevant Note may be subject to a withholding for Irish income tax at the standard rate (currently 20 per cent.) unless the beneficial owner of the relevant Note that is entitled to the interest is not resident in Ireland and makes a declaration in the required form and such interest is not deemed, under the provisions of Irish tax legislation, to be income of another person resident in Ireland.

#### *Taxation of Noteholders*

In general, persons who are resident in Ireland are liable to Irish taxation on their world-wide income whereas persons who are not resident in Ireland are only liable to Irish taxation on their Irish source income. Interest payable in respect of the Notes may be regarded as Irish source income on the basis that the Issuer is resident in Ireland. Accordingly, pursuant to general Irish tax rules, such income may be technically liable to Irish income tax (and levies if applicable), subject to the provisions of any applicable double taxation treaty. Ireland has currently ratified 42 double tax treaties (see “*Withholding Taxes*” above) and many of them exempt from Irish tax when received by a resident of the other jurisdiction. Thus a Noteholder may be entitled to exemption from Irish tax under the terms of the double tax treaty between Ireland and the Noteholder’s jurisdiction.

All persons are under a statutory obligation to account for Irish tax on a self-assessment basis and there is no requirement for the Irish Revenue Commissioners to issue or raise an assessment.

Credit is available for any Irish tax withheld from income on account of the related income tax liability. Non-Irish companies, where the income is not attributable to a branch or agency of the company in Ireland (whereby it would be subject to Irish corporation tax), are subject to income tax at the standard rate. Therefore any withholding tax suffered should be equal to and in satisfaction of the full liability.

#### *Section 198 of the TCA 1997*

There is an exemption from Irish income tax under Section 198 of the TCA 1997 in certain circumstances.

These circumstances include:

- (a) where interest is paid by a qualifying company within the meaning of Section 110 of the TCA 1997 to a person not resident in Ireland that is resident in an EU Member State (other than Ireland) or is a resident of a country with which Ireland has a double taxation agreement under the terms of that agreement;
- (b) where interest is payable by a company to a person that is not a resident of Ireland and is regarded as being resident in an EU Member State (other than Ireland) or is a resident of a country with which Ireland has a double taxation agreement and the interest is exempt from withholding tax because it is payable on a quoted Eurobond (see above);
- (c) where the interest is paid by a company in the ordinary course of its trade or business and the recipient of the interest is a company resident in an EU Member State (other than Ireland) or in a country with which Ireland has a double taxation agreement.

If, however, the exemption under section 198 does not apply and the double tax treaty does not exempt the interest earned or there is no double tax treaty between Ireland and the Noteholder's jurisdiction there is a long standing practice (as a consequence of the absence of a collection mechanism rather than adopted policy) whereby the Revenue Commissioners do not take any action to pursue any liability to such tax in respect of persons who are not regarded as being resident in Ireland except where such persons:

- (a) are chargeable in the name of a person (including a trustee) or in the name of an agent or branch in Ireland having the management or control of the interest; or
- (b) seek to claim relief and/or repayment of tax deducted at source in respect of taxed income from Irish sources; or
- (c) are chargeable to Irish corporation tax on the income of an Irish branch or agency or to income tax on the profits of a trade carried on in Ireland to which the interest is attributable.

There can be no assurance that the Irish Revenue Commissioners will apply this practice in the case of the holders of the Notes.

#### *Capital Gains Tax*

A holder of Notes will be subject to Irish tax on capital gains on a disposal of Notes unless such holder is neither resident nor ordinarily resident in Ireland and does not carry on a trade in Ireland through a branch or agency in respect of which the Notes are used or held.

#### *Capital Acquisitions Tax*

A gift or inheritance comprising of Notes will be within the charge to Irish capital acquisitions tax if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes, being bearer Notes are physically kept or located in Ireland with a depository or otherwise). There is a special exemption for non-Irish domiciled persons in certain circumstances.

### *Stamp Duty*

On the basis of an exemption in Section 85(2)(c) to the Stamp Duties Consolidation Act, 1999, for as long the proceeds of the Notes are used in the course of the Issuer's business and provided the Issuer is a qualifying company within the meaning of Section 110 of the TCA 1997, no stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes whether they are represented by Global Notes or Definitive Notes.

### **Taxation of the Reinsurer**

#### *Corporation Tax*

The Reinsurer will be a qualifying company for the purposes of Section 110 of the TCA 1997 (for the meaning of qualifying company see "*Taxation of the Issuer*" above). Therefore, profits arising from its activities will be treated as annual profits and gains within Schedule D and will be chargeable to corporation tax under Case III at a rate of 25 per cent. However, although charged under Case III of Schedule D, the profits will be computed in accordance with the provisions applicable to Case I of that Schedule. On this basis, the interest paid under the Reinsurer Loan Agreement will be deductible in determining the taxable profits of the Reinsurer.

#### *Withholding Tax*

Interest paid in Ireland to a qualifying company within the meaning of Section 110 of the TCA 1997 is exempt from withholding tax on yearly interest.

## **2. UNITED KINGDOM TAXATION**

*The following comments are of a general nature relating to the deduction from interest on the Notes for or on account of tax and liability to stamp duty and stamp duty reserve tax. They are made on the assumption that the Issuer is not resident in the United Kingdom for United Kingdom tax purposes. They are based on United Kingdom law and Inland Revenue practice in effect at the date of this Offering Circular and are subject to any change in law or practice that may take effect after such date. The comments do not purport to be a complete analysis of all United Kingdom tax considerations relating to the Notes. In particular they do not consider the United Kingdom income tax, capital gains tax or corporation tax treatment of Noteholders who are resident or ordinarily resident in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of companies through a permanent establishment, as regards accounting periods commencing on or after 1 January 2003) in connection with which interest on the Notes is received or to which the Notes are attributable. Prospective Noteholders who may fall within such categories, who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

### **Payments of Interest**

If the interest on the Notes does not have a United Kingdom source, no withholding or deduction for or on account of United Kingdom tax will fall to be made from payments of interest on the Notes.

Even if the interest does have a United Kingdom source, the Notes will constitute "quoted Eurobonds" within the meaning of section 349 of the Income and Corporation Taxes Act 1988 (the "**Taxes Act**") provided that they are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Taxes Act (and the Irish Stock Exchange is a "recognised stock exchange" for this purpose). Accordingly, payments of interest on the Notes made by the Issuer or any paying agent (or received by any collecting agent) may be made (or received, as the case may be) without withholding or deduction for or on account of United Kingdom income tax provided that the Notes remain so listed on a recognised stock exchange at the time of payment.

Any Paying Agent or other person through whom interest is paid to, or by whom interest is received on behalf of, an individual (whether resident in the United Kingdom or elsewhere) may be required to provide information in relation to the payment and the individual concerned to the United Kingdom Inland Revenue. The United Kingdom Inland Revenue may communicate this information to the tax authorities of other jurisdictions.

Neither the Issuer nor any Paying Agent will be obliged to make any additional payment to a Noteholder in respect of any withholding or deduction required to be made by applicable law.

If the interest on the Notes has a United Kingdom source, the interest may be subject to United Kingdom income tax by direct assessment even where such interest is paid without withholding or deduction. However, interest received without deduction or withholding is not normally chargeable to United Kingdom income tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom, or, in the case of companies through a permanent establishment, as regards accounting periods commencing on or after 1 January 2003, in connection with which the interest is received or to which the Notes are attributable (subject to certain exemptions for interest received by certain specified categories of agent). Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of that tax deducted if there is an appropriate provision under an applicable double taxation treaty.

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

No United Kingdom stamp duty or stamp duty reserve tax will be payable in respect of the issue of the Notes. No stamp duty will be payable on a transfer of the Notes by delivery and no charge to stamp duty reserve tax will arise in respect of an agreement to transfer the Notes.

### **3. EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME**

On 3 June 2003 the Council of the European Union adopted a Directive on the taxation of savings income under which Member States will generally be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to or for an individual resident in that other Member State. Exceptionally (and for a transitional period only which will end after agreement on exchange of information is reached between the European Union and certain non-European Union states) Belgium, Luxembourg and Austria will instead be required to withhold tax from such payments unless the bondholder authorises the person making the payment to report the payment or presents a certificate from the relevant tax authority establishing exemption therefrom. The Directive will, subject to certain conditions being satisfied, apply from 1 January 2005.

## SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to a subscription agreement dated 31 October 2003 between, *inter alios*, the Lead Manager and the Issuer (the “**Subscription Agreement**”), agreed (subject to certain conditions) with *inter alios* the Issuer to subscribe and pay for the Notes at the issue price of 100 per cent. of their initial principal amount. The Lead Manager is entitled to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment for the Notes to the Issuer. The Issuer has agreed to indemnify the Lead Manager against certain liabilities in connection with the issue of the Notes.

### United Kingdom

The Lead Manager has represented, warranted and agreed with the Issuer and Ambac, *inter alia*, that:

- (a) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”), except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA;
- (b) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Notes 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;
- (c) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and it has not offered or sold and will not offer or sell any Notes other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (d) 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or Ambac; and
- (e) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### United States

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

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States. In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

## **Ireland**

The Lead Manager has further represented and agreed that:

- (a) other than in circumstances which do not constitute an offer or sale to the public in Ireland or elsewhere by means of a prospectus within the meaning of the Companies Acts, 1963 to 2001 or Ireland (i) prior to application for listing of the Notes being made and the Irish Stock Exchange having approved this Offering Circular in accordance with the Regulations, it has not offered or sold and will not offer or sell, in Ireland or elsewhere, by means of any document or other means of visual reproduction, including electronic means, any of the Notes, (ii) subsequent to application for listing of the Notes being made and the Irish Stock Exchange approving this Offering Circular in accordance with the Regulations, it has not offered or sold and will not offer or sell, in Ireland or elsewhere, any of the Notes by means of any document or other means of visual reproduction, including electronic means, other than this Offering Circular (or any document including electronic means of visual reproduction approved as aforesaid, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations) and only where this Offering Circular (or such other listing particulars as aforesaid) is accompanied by an application form or an application form is issued which indicates where this Offering Circular (or such other listing particulars as aforesaid) can be obtained or inspected and (iii) it has not issued and will not issue at any time, in Ireland or elsewhere any application form for any of the Notes unless the application form is accompanied by this Offering Circular (or a document including electronic means of visual reproduction, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations and approved by the Irish Stock Exchange) or the application form indicates where this Offering Circular or such listing particulars can be obtained or inspected;
- (b) it has not made and will not make at any time any offer of any of the Notes in Ireland to which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply;
- (c) it will not sell any Notes pursuant to this Offering Circular and it will not take any proceedings on applications made pursuant to this Offering Circular until the fourth business day in Ireland after the date of this Offering Circular;
- (d) it has complied and will comply with all applicable provisions of the Investment Intermediaries Acts, 1995 to 2000 of Ireland (as amended) with respect to anything done by it in relation to the Notes or operating in, or otherwise involving, Ireland and, in the case of the Lead Manager acting under and within the terms of an authorisation to do so for the purposes of EU Council Directive 93/22/EEC of 10 May 1993 (as amended or extended), it has complied with any codes of conduct made under the Investment Intermediaries Acts 1995 to 2000, of Ireland (as amended) and, in the case of the Lead Manager acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended or extended), it has complied with any codes of conduct or practice made under Section 117(1) of the Central Bank Act, 1989 of Ireland (as amended); and
- (e) in respect of an offer of the Notes to the public in Ireland or elsewhere within the meaning of the Companies Acts, 1963 to 2001 of Ireland, it will comply with the requirements of Section 56 and 57 of the Companies Act, 1963 of Ireland.

## **General**

Reference should be made to the Subscription Agreement for a complete description of the restrictions on offers and sales of the Notes and on distribution of documents. Attention is also drawn to the inside cover of this Offering Circular.

## GENERAL INFORMATION

1. The issue of the Notes has been authorised by a resolution of the board of directors of the Issuer passed on 30 October 2003.
2. The issue of the Ambac Financial Guarantee, the Ambac Liquidity Facility Financial Guarantee and the Ambac Swap Financial Guarantee by Ambac has been duly authorised by resolutions of the Board of Directors of Ambac passed on 9 September 2003.
3. Application has been made to admit the Notes to the Official List of the Irish Stock Exchange.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and the ISIN for Notes is as follows:

<i>Common Code</i>	<i>ISIN</i>
017920375	XS0179203756

5. (a) The auditors of Ambac are KPMG Audit Plc, Chartered Accountants of 8 Salisbury Square, London EC4Y 8BB. Audited accounts have been prepared in relation to Ambac for the year ended 31 December 2002 and the six months to 30 June 2003. KPMG Audit Plc have given, and have not withdrawn, their consent to the inclusion of their report and references to their name and report in this Offering Circular in the form and context in which they appear and have authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).
- (b) No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. PricewaterhouseCoopers has given, and has not withdrawn, its consent to the inclusion of its accountants' report and references to its name in this Offering Circular in the form and context in which it appears and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).
- (c) No statutory accounts in respect of any financial year of Reinsurer have been prepared. The non-statutory special purpose financial statements of the Reinsurer for the period ended 1 October 2003 have been audited without qualification by PricewaterhouseCoopers, Wilton Place, Dublin 2, Ireland. PricewaterhouseCoopers has given, and has not withdrawn, its consent to the inclusion of its accountants' report and references to its name and report in this Offering Circular in the form and context in which they appear and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).
- (d) The financial statements of WLAC and BLAC for the year ended 30 November 2002 have been audited, without qualification, by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors of Southwark Towers, 32 London Bridge Street, London SE1 9SY. PricewaterhouseCoopers LLP has given, and has not withdrawn, its consent to the inclusion of its reports thereon and references to its name and reports in this Offering Circular in the form and context in which they appear and has authorised the contents of those parts of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).
- (e) Mr Robert Coatesworth, formerly Appointed Actuary to WLAC, has given and not withdrawn his written consent to the inclusion in this Offering Circular of his name and references to calculations made by him in the form and context in which they appear and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended)
- (f) Mr Ian Balls, formerly Appointed Actuary to BLAC, has given and not withdrawn his written consent to the inclusion in this Offering Circular of his name and references to calculations made by him in the form and context in which they appear and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).



6. (a) Ambac is not, and has not been, involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular a significant effect on its financial position nor is Ambac aware that any such proceedings are pending or threatened.
  - (b) The Issuer is not involved in any legal or arbitration proceedings which may have, or have had, since the date of its incorporation, a significant effect on its financial position, nor is the Issuer aware that any such proceedings are pending or threatened.
  - (c) The Reinsurer is not involved in any legal or arbitration proceedings which may have, or have had, since the date of its incorporation a significant effect on the Reinsurer's financial position, nor is the Reinsurer aware that any such proceedings are pending or threatened.
  - (d) (i) New Barclays Life is not involved in any legal or arbitration proceedings which may have, or have had, since 30 November 2002, and  
(ii) New Barclays Life has not assumed, as part of the Scheme Transfer, from BLAC any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular,  
a significant effect on New Barclays Life's financial position, nor is New Barclays Life aware that any such proceedings are pending or threatened.
  - (e) Proceedings have been brought in the United States against a number of defendants including Barclays following the collapse of Enron. In each case the claims are against groups of defendants and it is not possible to estimate Barclays possible loss, if any, in relation to them. The US Courts have ordered that the proceedings be brought to a non-binding mediation, which commenced in September 2003. Barclays considers that the claims against it are without merit and is defending them vigorously.  
Barclays is engaged in various other litigation proceedings both in the UK and a number of overseas jurisdictions, including the US, involving claims by and against it, which arise in the ordinary course of business.  
Barclays does not expect the ultimate resolution of any of the proceedings to which Barclays is party to have a significant adverse effect on the financial position or profitability of Barclays.  
No member of Barclays is involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this document, a significant effect on Barclays' financial position nor, so far as Barclays is aware, are any such proceedings pending or threatened.
7. Since the date of its incorporation, the Issuer has not entered into any contract or arrangement not being in its ordinary course of business other than the Subscription Agreement.
  8. Tillinghast has given and not withdrawn its written consent to the inclusion in this Offering Circular of its report and references to its name, report and views in the form and context in which they appear and has authorised the contents of that part of this Offering Circular for the purposes of Section 46 of the Companies Act, 1963 of Ireland (as amended).
  9. The annual accounts for Ambac for the years ended 31 December 2000, 31 December, 2001 and 31 December, 2002 have been audited without qualification.
  10. (a) Save as disclosed herein, since 31 December 2002, there has been (i) no material adverse change in the financial position or prospects of Ambac and (ii) no significant change in the trading or financial position of Ambac.
  - (b) There has been (i) no material adverse change in the financial position or prospects of the Issuer and (ii) no significant change in the trading or financial position of the Issuer since 14 August 2003 (being the date of incorporation of the Issuer).
  - (c) There has been (i) no material adverse change in the financial position or prospects of Reinsurer and (ii) no significant change in the trading or financial position of the Reinsurer since 1 October 2003.

- (d) Save as disclosed in the sections entitled “*BLAC, WLAC and New Barclays Life*”, since 30 November 2002, there has been (i) no material adverse change in the financial position or prospects of New Barclays Life and (ii) no significant change in the financial or trading position of New Barclays Life.
11. None of the Issuer, the Reinsurer or New Barclays Life will publish interim accounts. The financial year end in respect of the Issuer and the Reinsurer is 30 November and in respect of New Barclays Life is 30 November. The Issuer, the Reinsurer and New Barclays Life will each produce and publish non-consolidated audited financial statements but will not produce consolidated audited financial statements.
  12. The Notes, Interest Coupons and Talons will conform to the following legend: “Any United States person (as defined in the Internal Revenue Code of the United States of America) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Section 165(j) and 128(a) of the Internal Revenue Code of the United States of America.”
  13. According to the rules and regulations of the Irish Stock Exchange, any Note listed on the Irish Stock Exchange must be freely transferable and, therefore, no transaction made on the Irish Stock Exchange may be cancelled.
  14. The Trust Deed, the Issuer Deed of Charge and the Reinsurer Deed of Charge will provide that the Note Trustee, the Issuer Security Trustee and the Reinsurer Security Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, the Issuer Deed of Charge and the Reinsurer Deed of Charge, respectively, whether or not any such report or other information, or engagement letter or other document entered into by the Note Trustee, the Issuer Security Trustee to the Reinsurer Security Trustee (as the case may be) and the relevant person in connection therewith, contains any limit on the liability of the relevant person.
  15. Copies of the following documents may be inspected (and, in the case of the documents listed in paragraphs (b), (c), (d) and (e) below, may be obtained) during usual business hours at the registered office of the issuer and at the specified offices of the Irish Paying Agent at any time after the date of this Offering Circular:
    - (a) the memorandum and articles of association of the Issuer, Reinsurer and New Barclays Life;
    - (b) the accountants’ reports for the Issuer and the Reinsurer and the audited special purpose financial statements of the Reinsurer for the period ended 1 October 2003;
    - (c) the financial statements of WLAC and BLAC for the year ended 30 November 2002 and the audit reports thereon;
    - (d) the memorandum and articles of association of Ambac;
    - (e) the annual accounts of Ambac for the years ended 31 December 2002, 31 December, 2001 and 31 December, 2000 and KPMG Audit Plc’s report on the former and a copy of Ambac’s interim financial statements for the six months to 30 June 2003;
    - (f) the consents and reports referred to in paragraphs 5 and 8 above;
    - (g) the Scheme Transfer and policyholder mailing in respect of the acquisition of BLAC by WLAC together with the experts report of KPMG prepared in connection with the Scheme Transfer;
    - (h) after the Closing Date, copies of the following documents:
      - (i) the Trust Deed;
      - (ii) the Agency Agreement;
      - (iii) the Issuer Deed of Charge;
      - (iv) the Liquidity Facility Agreement;
      - (v) the Swap Agreement;
      - (vi) the Issuer Account Bank Agreement;
      - (vii) the Issuer Administration Agreement;
      - (viii) the Master Definitions Schedule;

- (ix) the Subordinated Loan Agreement;
- (x) the Expenses Loan Agreement;
- (xi) the Reinsurer Loan Agreement;
- (xii) the Reinsurance Agreement;
- (xiii) the Reinsurer Deed of Charge;
- (xiv) the Reinsurer Investment Management and Custody Agreement;
- (xv) the Reinsurer Administration Agreement;
- (xvi) the Reinsurer Funding Bank Account Agreement;
- (xvii) the Reinsurer Reinsurance Bank Account Agreement;
- (xviii) the Ambac Financial Guarantee;
- (xix) the Ambac Liquidity Facility Financial Guarantee;
- (xx) the Ambac Swap Financial Guarantee;
- (xxi) the Guarantee and Reimbursement Agreement;
- (xxii) the engagement letter of Tillinghast; and
- (xxiii) the Issuer Cash Management Agreement,

shall be available for inspection.

16. So long as any Notes remain outstanding, copies of the most recent:
- (a) annual audited non-consolidated financial statements of the Issuer, the Reinsurer and New Barclays Life;
  - (b) the Investor Report (such reports are expected to be provided annually on the Interest Payment Date falling in April); and
  - (c) the latest statutory quarterly and annual financial statements filed by Ambac Assurance in the United States;
  - (d) regulatory returns filed by New Barclays Life with the United Kingdom's Financial Services Authority together with regulatory returns previously filed by WLAC or BLAC
- may be obtained free of charge from the specified offices of the Principal Paying Agent and the Irish Paying Agent as soon as they are publicly available.
17. This Offering Circular includes as Appendix 8 a form or application for Notes solely to comply with certain Irish legal requirements. It is not necessary for potential purchasers to complete the application form to apply for Notes. Neither the Issuer nor the Lead Manager will be bound in any way whatsoever to issue or sell any Notes to any person who completes and returns such application form.

## APPENDIX 1 – HISTORIC PERFORMANCE OF THE FUNDS

These tables demonstrate the historic performance of the principal funds of BLAC as at 31 August 2003; the tables do not cover the WLAC funds as these were previously operated by a different fund manager.

<i>12 Months</i>	<i>Percentile Ranking (%)</i>	<i>Average Annual Return (%)</i>
<i>New Barclays Life Funds</i>		
Managed (Life)	36	5.4
U.K. Equity (Life)	44	4.2
International (Life)	37	7.1
U.K. Enterprise (Life)	32	4.9
Gilt Edged (Life)	30	2.5
Money Fund (Life)	65	2.0
Property (Life)	18	10.6
Managed (Pensions)	50	5.7
U.K. Equity (Pensions)	46	4.6
International (Pensions)	45	7.7
U.K. Enterprise (Pensions)	41	5.1
Managed European (Pensions)	22	6.2
Gilt Edged (Pensions)	71	2.7
European Tracker (Pensions)	74	5.8
Secure Growth (Pensions)	70	2.7
Property (Pensions)	89	5.5

<i>5 Years</i>	<i>Percentile Ranking (%)</i>	<i>Average Annual Return (%)</i>
<i>New Barclays Life Funds</i>		
Managed (Life)	31	0.6
U.K. Equity (Life)	43	(1.0)
International (Life)	44	0.1
U.K. Enterprise (Life)	29	(0.4)
Gilt Edged (Life)	37	3.8
Money Fund (Life)	65	3.1
Property (Life)	38	8.2
Managed (Pensions)	25	1.3
U.K. Equity (Pensions)	39	(1.1)
International (Pensions)	38	0.7
U.K. Enterprise (Pensions)	21	(0.3)
Managed European (Pensions)	N/A	N/A
Gilt Edged (Pensions)	54	5.1
European Tracker (Pensions)	N/A	N/A
Secure Growth (Pensions)	64	4.2
Property (Pensions)	59	8.1

*10 Years*

	<i>Percentile Ranking (%)</i>	<i>Average Annual Return (%)</i>
<i>New Barclays Life Funds</i>		
Managed (Life)	39	4.2
U.K. Equity (Life)	41	4.5
International (Life)	61	2.1
U.K. Enterprise (Life)	24	5.2
Gilt Edged (Life)	22	5.5
Money Fund (Life)	64	3.5
Property (Life)	34	8.2
Managed (Pensions)	34	5.2
U.K. Equity (Pensions)	37	5.4
International (Pensions)	60	2.5
U.K. Enterprise (Pensions)	14	6.2
Managed European (Pensions)	N/A	N/A
Gilt Edged (Pensions)	31	7.2
European Tracker (Pensions)	N/A	N/A
Secure Growth (Pensions)	68	4.7
Property (Pensions)	41	9.4

PART 1

**Ambac Assurance UK Limited Interim Financial  
Statements for the six months to 30 June 2003**

**Ambac Assurance UK Limited**

Directors' Report and Interim Financial Statements  
for the six months to 30 June 2003

Registered no: 3248674

# Ambac Assurance UK Limited

## Directors' Report and Interim Financial Statements for the 6 months ended 30 June 2003

	<i>Pages</i>
Directors and advisers	1
Directors' report	2
Report of the auditors	3
Technical account – general business	4
Non-technical account – general business	5
Statement of total recognised gains and losses	5
Reconciliation of movements in shareholder's funds	5
Balance sheet	6
Notes to the financial statements	6-8

## Ambac Interim Financial Statements – Page 1

### Ambac Assurance UK Limited

#### Directors and advisers

##### Directors

John W Uhlein III *Chairman & Managing Director*

Robert J Genader

Martin Roberts

David W Wallis

David R Larwood

##### Secretary and registered office

David R Larwood

Hasilwood House

60 Bishopsgate

London EC2N 4BE

##### Registered Auditor

KPMG Audit Plc

8 Salisbury Square

London EC4Y 8BB

##### Bankers

Citibank NA

336 Strand

London WC2R 1HB

##### Solicitors

Linklaters

One Silk Street

London EC2Y 8HQ



## Ambac Interim Financial Statements – Page 2

### Ambac Assurance UK Limited

#### Directors' report

The directors present their report on the unaudited financial statements for the 6 months to 30 June 2003 which have been reviewed by the company's auditors as indicated in their report on page 3\*.

#### Principal activity

The company carries on non-life financial loss insurance business. The company is a wholly owned subsidiary of Ambac Assurance Corporation, a financial guarantee insurance company resident in Wisconsin, United States of America. The ultimate holding company is Ambac Financial Group, Inc. a company publicly quoted on the New York Stock Exchange in New York, United States of America.

#### Business review

The company is authorised to transact credit, suretyship and financial guarantee insurance business in the United Kingdom. The company is also authorised to provide services in relation to such business to persons in twelve other European countries. The directors anticipate that the company will continue to expand its current operations by offering services into certain other countries within Europe.

Ambac Assurance UK. Limited has earned triple A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Fitch Inc.

#### Results and dividends

The results for the period are set out in the profit and loss account on pages 4\* and 5\* of the financial statements. The directors do not recommend the payment of a dividend.

#### Directors and directors' interests

The directors who held office during the year are shown on page 1\*.

According to the Register of Directors Interests, none of the directors has any interest in the shares of the company. Under the provisions of the Company (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate parent company.

#### By order of the board



David R Larwood *Secretary*

9 September 2003

---

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 213 to 223 of this Offering Circular.

## Ambac Interim Financial Statements – Page 3

### Ambac Assurance UK Limited

#### Independent review report to Ambac Assurance UK Limited

##### Introduction

We have been instructed by the company to review the financial information set out on pages 4\* to 10\*.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

##### Directors' responsibilities

The interim report, is the responsibility of, and has been approved by, the directors. General accepted accounting principles require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes and the reasons for them, are to be disclosed.

##### Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board, as if the financial information were the interim report required of a UK listed company. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

##### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London  
9 September 2003

---

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 213 to 223 of this Offering Circular.

**Ambac Interim Financial Statements – Page 4**

**Ambac Assurance UK Limited**

**Profit and loss account**

**Technical account – general business for the 6 months ended 30 June 2003**

	<i>30 June (unaudited)</i>				<i>12 months to 31 December 2002</i>	
	<i>2003</i>		<i>2002</i>		<i>£'000</i>	<i>£'000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Earned premiums, net of reinsurance</b>						
Gross premiums written	58,100		16,270		27,994	
Outward reinsurance premiums	<u>(52,360)</u>		<u>(14,675)</u>		<u>(25,321)</u>	
		5,740		1,595		2,673
Change in the gross provision for unearned premiums	(43,432)		(8,173)		(6,911)	
Change in the provision for unearned premiums, reinsurers' share	<u>39,089</u>		<u>7,356</u>		<u>6,220</u>	
		<u>(4,343)</u>		<u>(817)</u>		<u>(691)</u>
		1,397		778		1,982
<b>Other technical income</b>		19		9		22
<b>Claims incurred net of reinsurance</b>						
Claims paid						
Gross amount		—		—		—
Reinsurers' share		—		—		—
		<u>—</u>		<u>—</u>		<u>—</u>
Net claims paid		—		—		—
		<u>—</u>		<u>—</u>		<u>—</u>
Change in the provision for claims						
Gross amount		—		—		—
Reinsurers' share		—		—		—
		<u>—</u>		<u>—</u>		<u>—</u>
Change in the net provision for claims		—		—		—
<b>Claims incurred, net of reinsurance</b>		—		—		—
<b>Net operating expenses</b>		(995)		(676)		(1,713)
<b>Other technical expense</b>		<u>—</u>		<u>—</u>		<u>(443)</u>
<b>Balance on the technical account for general business</b>		<u>421</u>		<u>111</u>		<u>(152)</u>

## Ambac Interim Financial Statements – Page 5

### Ambac Assurance UK Limited

#### Profit and loss account

Non-technical account – general business for the 6 months ended 30 June 2003

	<i>30 June (unaudited)</i>		<i>12 months to 31 December</i>
	<i>2003</i>	<i>2002</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance on the general business technical account	421	111	(152)
Investment income	538	417	862
Investment expenses and charges	(13)	(10)	(20)
Other income (expense)	668	(293)	(1,008)
	1,614	225	(318)
<b>Profit (loss) on ordinary activities before tax</b>			
Tax on (profit) loss on ordinary activities	(465)	(70)	71
	1,149	155	(247)
<b>Profit (loss) on ordinary activities after tax</b>			
<b>Retained profit (loss) for the period</b>	1,149	155	(247)

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis and therefore a separate note of historical cost profits and losses has not been included.

All amounts are derived from continuing operations.

#### Statement of total recognised gains and losses

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Retained profit (loss) after tax for the period	1,149	155	(247)
Total recognised gains (losses) in the period	1,149	155	(247)

#### Reconciliation of movements in shareholder's funds

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Total recognised gains (losses) in the period	1,149	155	(247)
Share capital issued in the period	6,000	—	—
Balance at beginning of the period	13,017	13,264	13,264
<b>Balance at end of period</b>	20,166	13,419	13,017

**Ambac Interim Financial Statements – Page 6**

**Ambac Assurance UK Limited**

Balance sheet at 30 June 2003

	<i>30 June (unaudited)</i>		<i>At 31</i>
	<i>2003</i>	<i>2002</i>	<i>December</i>
	<i>£'000</i>	<i>£'000</i>	<i>2002</i>
			<i>£'000</i>
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	33,449	19,338	19,853
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	111,502	73,549	72,413
<b>Debtors</b>			
Other debtors including taxation	219	337	620
<b>Other assets</b>			
Tangible assets	263	212	284
Cash at bank and in hand	4,078	2,844	2,110
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	9,533	8,391	8,753
<b>Total assets</b>	<u>159,044</u>	<u>104,671</u>	<u>104,033</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	17,000	11,000	11,000
Profit and loss account	3,166	2,419	2,017
<b>Shareholder's funds – equity interests</b>	<u>20,166</u>	<u>13,419</u>	<u>13,017</u>
<b>Technical provisions</b>			
Provision for unearned premiums	123,891	81,721	80,459
<b>Creditors</b>			
Creditors arising out of reinsurance operations	1,549	349	722
Other creditors including taxation and social security	1,536	1,810	1,670
<b>Accruals and deferred income</b>	<u>11,902</u>	<u>7,372</u>	<u>8,165</u>
<b>Total liabilities</b>	<u>159,044</u>	<u>104,671</u>	<u>104,033</u>

The financial statements on pages 4 to 10\* were approved by the board of directors on 9 September 2003 and were signed on its behalf by:



**John W Uhlein III – Chairman and Managing Director**

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 213 to 223 of this Offering Circular.

Ambac Assurance UK Limited

Notes to the financial statements for the 6 months ended 30 June 2003

**1 Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

**2 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

*Basis of accounting for underwriting activities*

All business is accounted for on an annual basis.

*Premium income and unearned premiums*

The policy for premium recognition is dependent on the timing of the collection of premiums.

Where the premium on a policy is received up front, the premium is recognised as written at the date of inception, and earned in the technical account on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured. When an issue insured by the company has been refunded or called, the remaining unrecognised premium is recognised at that time. Where a premium is received in instalments, it is recognised as written on the date the instalment falls due and earned over the period to the next instalment date. The receipt of future amounts is considered to be sufficiently uncertain, that recognition at contract inception would not be deemed prudent.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related insurance business.

*Structuring Fee Revenue*

Structuring fee revenue represents consideration received from clients in return for the company's involvement in structuring certain insured transactions. These non-refundable fees are generally collected up-front and are earned on a straight-line basis over the estimated life of the insured transaction. Structuring fee revenue is reported as other income in the technical account.

*Acquisition costs*

Certain costs incurred primarily related to the production of business have been deferred. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance. Acquisition costs and ceding commission income which relate to a subsequent financial year are deferred and charged or credited to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of premiums written or ceded which are unearned at the balance sheet date.

*Claims*

A case basis loss provision is established for insured obligations when, in the judgement of management, a monetary default in the timely payment of debt service is imminent. A case basis loss provision is established in an amount that is sufficient to cover the present value of the anticipated debt service payments over the expected period of default and estimated expenses associated with setting the claim less estimated recoveries under salvage and subrogation rights.

Ambac Assurance UK Limited

**2 Accounting policies – continued**

*Investment income*

Investment income is accounted for on a receivable basis. Interest is accrued up to the balance sheet date. Realised gains or losses represent, for investments included in the balance sheet at amortised cost, the difference between net sales proceeds and amortised cost, and for investments included in the balance sheet at current value, the difference between net sale proceeds and purchase price. All investment income and realised gains and losses on investments are reported in the non-technical account.

*Investments*

Redeemable fixed interest securities are shown at amortised cost. The difference between the purchase price of such securities and the amount repayable at maturity is charged or credited to the profit and loss account over the period to maturity.

Deposits with credit institutions are shown at current value.

*Foreign currencies*

Assets and liabilities held in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences are taken to the profit and loss account non-technical account. Foreign currency transactions during the period are translated into sterling using average rates of exchange, with the exchange gains and losses included in the profit and loss account non-technical account.

*Pension costs*

Pension contributions are charged to the profit and loss account and represent the contributions payable to a money purchase pension scheme in respect of the financial year.

*Taxation*

Provision is made for all taxation expected to be payable on taxable profits of the year.

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

*Tangible assets*

Expenditure on leasehold improvements, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight-line basis. The periods used are as follows:

Leasehold improvements	Remaining life of the lease
Fixtures, fittings and office equipment	5 years
Computer Equipment	3 years

**3 Comparative figures**

The comparative figures for the financial year ended 31 December 2002 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

**4 Segmental information**

The company only writes one class of business, that being non-life financial loss insurance. For the current and previous accounting periods, all such business was written in the United Kingdom and therefore the directors regard any segmental analysis as inappropriate at the present time.

**Ambac Assurance UK Limited**

**5 Cashflow**

The company has not prepared a cashflow statement as it is a wholly owned subsidiary of Ambac Assurance Corporation which prepares financial statements including a consolidated cashflow statement.

**6 Related party transactions**

The majority of the company's reinsurance protection is provided by its parent. The cover provided is a quota share agreement representing 90% of all credit and financial guarantee loss exposure. The net retention of all non-life financial loss business is reinsured on an excess of loss basis above an attachment point of £500,000. The reinsurance agreement includes an annual ceding commission payable to the company. Premiums of £52,164,000 (2002: £14,603,000) were ceded to the company's parent during the period, and commission of £5,211,000 (2002: £1,458,000) was payable to the company under the agreement.

In addition the parent company is required under a net worth maintenance agreement to cause the company to maintain free assets of at least £10,500,000.

The company provides suretyship insurance to Ambac Credit Products, LLC ("ACP"), an affiliate domiciled in the United States of America, which obligates the company to make payments to ACP if certain credit events occur in relation to covered structured credit default swaps. The company ceded 100% of these insurance policies to non-affiliated reinsurers. Direct premiums of £196,000 (2002: £72,000) relating to these policies were recorded during the period.

The company has issued financial guarantee insurance policies to the swap counterparties of Ambac Credit Products Limited ("ACPL"), a United Kingdom domiciled affiliate subject to FSA regulatory oversight, whereby the company guarantees timely payment of ACPL's obligations under structured credit default swaps. The company recorded premiums of £123,000 during 2003 (2002: £-0-) related to these financial guarantees.

**7 Called up share capital**

During the period, the Board of Directors increased the number of authorized ordinary capital shares (par value: £1.00 per share) from 20,000,000 to 30,000,000. The Company issued an additional 6,000,000 shares to its parent at par during the period.

**8 Ultimate parent company**

The company is a wholly owned subsidiary of Ambac Assurance Corporation. The ultimate holding company is Ambac Financial Group, Inc. a company incorporated under the laws of the State of Delaware, United States of America.

The largest and smallest groups in which the results of the company are consolidated are Ambac Financial Group, Inc. and Ambac Assurance Corporation, respectively. The consolidated financial statements of both groups are available to the public and may be obtained from One State Street Plaza, New York, NY 10004, USA.



PART 2

**Ambac Assurance UK Limited Financial Statements for  
the Year Ended 31 December 2002**

**Ambac Assurance UK Limited**

Directors' Report and Financial Statements  
for the year ended 31 December 2002

**Registered no: 3248674**

**Ambac Financial Statements**  
**Ambac Assurance UK Limited**  
**Directors' Report and Financial Statements**  
**for the year ended 31 December 2002**

	<i>Pages</i>
Directors and advisers	1
Directors' report	2-3
Independent auditor's report to the members of Ambac Assurance UK Limited	4-5
Technical account – general business	6
Non-technical account – general business	7
Statement of total recognised gains and losses	7
Reconciliation of movements in shareholder's funds	7
Balance sheet	8
Notes to the financial statements	9-18

## Ambac Financial Statements – Page 1

### Ambac Assurance UK Limited

#### Directors and advisers

##### Directors

John W Uhlein III *Chairman & Managing Director*

Robert J Genader

Martin Roberts

David W Wallis

David R Larwood

##### Secretary and registered office

David R Larwood

Hasilwood House

60 Bishopsgate

London EC2N 4BE

##### Registered Auditor

KPMG Audit Plc

8 Salisbury Square

London EC4Y 8BB

##### Bankers

Citibank NA

336 Strand

London WC2R 1HB

##### Solicitors

Linklaters

One Silk Street

London EC2Y 8HQ

## Ambac Financial Statements – Page 2

### Ambac Assurance UK Limited

#### Directors' report

The directors present their report and the audited financial statements for the year to 31 December 2002.

#### Principal activity

The company carries on non-life financial loss insurance business. The company is a wholly owned subsidiary of Ambac Assurance Corporation, a financial guarantee insurance company resident in Wisconsin, United States of America. The ultimate holding company is Ambac Financial Group, Inc. a company publicly quoted on the New York Stock Exchange in New York, United States of America.

#### Business review

The company is authorised to transact credit, suretyship and financial guarantee insurance business in the United Kingdom. The company is also authorised to provide services in relation to such business into twelve other European countries. The directors anticipate that the company will continue to expand its current operations by offering services into certain other countries within Europe.

Ambac Assurance UK Limited has earned triple A ratings, the highest ratings available from Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Inc.

#### Results and dividends

The results for the year are set out in the profit and loss account on pages 6\* and 7\*. The company's investment portfolio is comprised of government obligations of the United Kingdom and the United States of America. As a result of fluctuations in the currency markets during 2002, an unrealised loss of approximately £820,000 was recorded in the non-technical account relating to the company's investment in a US Treasury bond.

The directors do not recommend the payment of a dividend.

#### Directors and directors' interests

The directors who held office during the year are shown on page 1\*.

According to the Register of Directors' Interests, none of the directors has any interest in the shares of the company. Under the provisions of the Company (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate parent company.

---

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 224 to 243 in this Offering Circular.

Ambac Assurance UK Limited

Directors' report continued

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. The directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

The company has, by elective resolution, dispensed with the need to appoint auditors annually and therefore KPMG Audit Plc continue to hold office.

By order of the board



David R Larwood *Secretary*

3 March 2003

## Ambac Financial Statements – Page 4

### Ambac Assurance UK Limited

#### Independent auditors' report to the members of Ambac Assurance UK Limited

We have audited the financial statements on pages 6 to 18\*.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

#### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

---

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 224 to 243 in this Offering Circular.

## Ambac Financial Statements – Page 5

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London  
3 March 2003

Ambac Financial Statements – Page 6

Ambac Assurance UK Limited

Profit and loss account

Technical account – general business for the year ended 31 December 2002

	<i>Notes</i>	<i>2002</i>		<i>2001</i>	
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	27,994		32,048	
Outward reinsurance premiums	4	<u>(25,321)</u>		<u>(28,908)</u>	
			2,673		3,140
Change in the gross provision for unearned premiums	18	(6,911)		(22,713)	
Change in the provision for unearned premiums, reinsurers' share	18	<u>6,220</u>		<u>20,442</u>	
			<u>(691)</u>		<u>(2,271)</u>
			1,982		869
<b>Other technical income</b>			22		—
<b>Claims incurred net of reinsurance</b>					
Claims paid					
Gross amount			—		—
Reinsurers' share			—		—
Net claims paid			<u>—</u>		<u>—</u>
Change in the provision for claims					
Gross amount			—		—
Reinsurers' share			—		—
Change in the net provision for claims			—		—
<b>Claims incurred, net of reinsurance</b>			—		—
<b>Net operating expenses</b>	5		(1,713)		(1,362)
<b>Other technical expense</b>			<u>(443)</u>		—
<b>Balance on the technical account for general business</b>			<u>(152)</u>		<u>(493)</u>



## Ambac Financial Statements – Page 7

### Ambac Assurance UK Limited

#### Profit and loss account

#### Non-technical account – general business for the year ended 31 December 2002

	<i>Notes</i>	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
Balance on the general business technical account		(152)	(493)
Investment income	6	862	1,024
Investment expenses and charges	7	(20)	(21)
Other income and charges	8	(1,008)	179
		(318)	689
<b>(Loss) profit on ordinary activities before tax</b>	9	(318)	689
Tax on profit on ordinary activities	12	71	(214)
		(247)	475
<b>(Loss) profit on ordinary activities after tax</b>		(247)	475
<b>Retained (loss) profit for the year</b>		(247)	475

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis and therefore a separate note of historical cost profits and losses has not been included.

All amounts are derived from continuing operations.

#### Statement of total recognised gains and losses

	<i>£'000</i>	<i>£'000</i>
Retained (loss) profit after tax for the year	(247)	475
<b>Total recognised (losses) gains in the year</b>	(247)	475

#### Reconciliation of movements in shareholder's funds

	<i>£'000</i>	<i>£'000</i>
Total recognised (losses) gains in the year	(247)	475
Balance at beginning of the year	13,264	12,789
<b>Balance at end of year</b>	13,017	13,264

## Ambac Financial Statements – Page 8

### Ambac Assurance UK Limited

Balance sheet at 31 December 2002

	<i>Notes</i>	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	19,853	18,962
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	72,413	66,193
<b>Debtors</b>			
Other debtors including taxation	14	620	178
<b>Other assets</b>			
Tangible assets	15	284	241
Cash at bank and in hand		2,110	2,206
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	18	8,753	7,596
<b>Total assets</b>		104,033	95,376
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	17	11,000	11,000
Profit and loss account	20	2,017	2,264
<b>Shareholder's funds – equity interests</b>		13,017	13,264
<b>Technical provisions</b>			
Provision for unearned premiums	18	80,459	73,548
<b>Creditors</b>			
Creditors arising out of reinsurance operations		722	280
Other creditors including taxation and social security	16	1,670	1,601
<b>Accruals and deferred income</b>	19	8,165	6,683
<b>Total liabilities</b>		104,033	95,376

The financial statements on pages 6 to 18\* were approved by the board of directors on 3 March 2003 and were signed on its behalf by:



**John W Uhlein III** – *Chairman and Managing Director*

\* References are to pages in the financial statements of Ambac Assurance UK Limited which are reproduced on pages 224 to 243 in this Offering Circular.

Ambac Assurance UK Limited

Notes to the financial statements for the year ended 31 December 2002

**1 Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

**2 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements, except that the company has adopted FRS 19 Deferred Taxation during the year.

*Basis of accounting for underwriting activities*

All business is accounted for on an annual basis.

*Premium income and unearned premiums*

The policy for premium recognition is dependent on the timing of the collection of premiums.

Where the premium on a policy is received up front, the premium is recognised as written at the date of inception, and earned in the technical account on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured. When an issue insured by the company has been refunded or called, the remaining unrecognised premium is recognised at that time. Where a premium is received in instalments, it is recognised as written on the date the instalment falls due and earned over the period to the next instalment date. The receipt of future amounts is considered to be sufficiently uncertain, that recognition at contract inception would not be deemed prudent.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related insurance business.

*Structuring Fee Revenue*

Structuring fee revenue represents consideration received from clients in return for the company's involvement in structuring certain insured transactions. These non-refundable fees are generally collected up-front and are earned on a straight line basis over the estimated life of the insured transaction. Structuring fee revenue is reported as other income in the technical account.

*Acquisition costs*

Certain costs incurred primarily related to the production of business have been deferred. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance. Acquisition costs and ceding commission income which relate to a subsequent financial year are deferred and charged or credited to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of premiums written or ceded which are unearned at the balance sheet date.

Ambac Assurance UK Limited

2 Accounting policies – *continued*

*Claims*

A case basis loss provision is established for insured obligations when, in the judgement of management, a monetary default in the timely payment of debt service is imminent. A case basis loss provision is established in an amount that is sufficient to cover the present value of the anticipated debt service payments over the expected period of default and estimated expenses associated with setting the claim less estimated recoveries under salvage and subrogation rights.

*Investment income*

Investment income is accounted for on a receivable basis. Interest is accrued up to the balance sheet date. Realised gains or losses represent, for investments included in the balance sheet at amortised cost, the difference between net sales proceeds and amortised cost, and for investments included in the balance sheet at current value, the difference between net sale proceeds and purchase price. All investment income, including realised gains and losses on investments, is reported in the non-technical account.

*Investments*

Redeemable fixed interest securities are shown at amortised cost. The difference between the purchase price of such securities and the amount repayable at maturity is charged or credited to the profit and loss account over the period to maturity.

Deposits with credit institutions are shown at current value.

*Foreign currencies*

Assets and liabilities held in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences are taken to the profit and loss account non-technical account. Foreign currency transactions during the year are translated into sterling using average rates of exchange, with the exchange gains and losses included in the profit and loss account non-technical account.

*Pension costs*

Pension contributions are charged to the profit and loss account and represent the contributions payable to a money purchase pension scheme in respect of the financial year.

*Taxation*

Provision is made for all taxation expected to be payable on taxable profits of the year.

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Ambac Assurance UK Limited

2 Accounting policies – *continued*

*Tangible assets*

Expenditure on leasehold improvements, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight line basis. The periods used are as follows:

Leasehold improvements	4 years
Fixtures, fittings and office equipment	5 years
Computer Equipment	3 years

3 Segmental information

The company only writes one class of business, that being non-life financial loss insurance. For the current and previous accounting periods, all such business was written in the United Kingdom and therefore the directors regard any segmental analysis as inappropriate at the present time.

4 Reinsurance balance

The reinsurance balance of those items in the technical account which relate to outwards reinsurance transactions is an expense of £17,098,000 (2001: an expense of £7,695,000).

5 Net operating expenses

	2002 £'000	2001 £'000
Acquisition costs	3,654	3,020
Change in gross deferred acquisition costs	(1,157)	(1,894)
	<hr/>	<hr/>
Administrative expenses	2,497	1,126
	1,219	1,007
	<hr/>	<hr/>
Gross operating expenses	3,716	2,133
Reinsurance commissions	(2,506)	(2,876)
Change in deferred reinsurance commission	503	2,105
	<hr/>	<hr/>
	<u>1,713</u>	<u>1,362</u>

## Ambac Financial Statements – Page 12

### Ambac Assurance UK Limited

#### 6 Investment income – non-technical account

	<i>£'000</i>	<i>£'000</i>
Income from other financial investments	862	1,024
	862	1,024

Investment income includes £582,000 (2001: £722,000) of income from listed investments.

#### 7 Investment expenses and charges

	<i>£'000</i>	<i>£'000</i>
Investment management expenses and bank charges	20	21
	20	21

#### 8 Other income and charges

Other income relates principally to foreign exchange gains and losses.

#### 9 Profit on ordinary activities before tax

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
<i>Profit on ordinary activities before tax is stated after charging</i>		
Auditors' remuneration:		
Audit	31	26
Other services – audit of regulatory returns	8	5
– other non-audit	71	41
Depreciation	71	70

#### 10 Remuneration of directors

	<i>£'000</i>	<i>£'000</i>
Directors' emoluments	493	346
Company contributions to money purchase schemes	15	14

The emoluments of the highest paid director were £474,000 (2001: £327,000). He is a member of a money purchase pension scheme, under which his accrued pension benefit at the year end was £100,280 (2001: £104,956).

## Ambac Financial Statements – Page 13

### Ambac Assurance UK Limited

#### 10 Remuneration of directors – *continued*

Retirement benefits are accruing to the following number of directors under:

	<i>Number of directors</i>	
	<i>2002</i>	<i>2001</i>
Money purchase schemes	1	1

The number of directors exercising share options in the ultimate parent company during the year were 3 (2001: 2).

#### 11 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	<i>Number of employees</i>	
	<i>2002</i>	<i>2001</i>
Underwriting	17	13
Administration	5	5

The aggregate payroll costs in respect of these persons were as follows:

	<i>£'000</i>	<i>£'000</i>
Wages and salaries	3,163	2,220
Payroll taxes	276	467
Other pension costs	160	107

#### 12 Taxation

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Current corporation tax expense	71	(214)
Tax on profit on ordinary activities	<u>71</u>	<u>(214)</u>

As mentioned in note 2 above, the company adopted FRS 19 Deferred Taxation during the year. The adoption of FRS 19 had no effect on the results for the period.

**Ambac Financial Statements – Page 14**

**Ambac Assurance UK Limited**

**12 Taxation – continued**

The tax assessed for the period is lower than the standard rate of the corporation tax in the United Kingdom. The differences are explained below:

	2002		2001	
	£'000	%	£'000	%
(Loss) profit on ordinary activities before tax	(318)		689	
(Loss) profit on ordinary activities at the standard rate of corporation tax	95	30.0%	(207)	30.0%
Other	(24)	(7.7%)	(7)	1.0
Tax benefit (expense) on profit on ordinary activities	<u>71</u>	<u>22.3%</u>	<u>(214)</u>	<u>31.03%</u>

**13 Other financial investments**

	Market Value		Cost		Carrying Value	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Debt securities and other fixed interest securities:						
Listed on the UK Stock Exchange	10,763	15,316	10,705	15,484	10,542	15,363
Listed on other investment exchanges	9,919	—	10,205	—	9,311	—
Deposits with credit institutions	—	3,599	—	3,599	—	3,599
	<u>20,682</u>	<u>18,915</u>	<u>20,910</u>	<u>19,083</u>	<u>19,853</u>	<u>18,962</u>

The fixed interest securities are carried at amortised cost, net of foreign currency translation gains or losses. The net excess of the amortised cost over the amount payable on maturity at 31 December 2002 was £1,313,000 (2001: £613,000).



Ambac Financial Statements – Page 15

Ambac Assurance UK Limited

14 Other debtors

	2002 £'000	2001 £'000
Accrued interest	243	68
Current taxes	363	—
Other	14	110
	620	178
	620	178

15 Tangible assets

The net book value of tangible assets is made up as follows:

	<i>Leasehold Improvements</i> £'000	<i>Fixtures, fittings and office equipment</i> £'000	Total £'000
Cost:			
At beginning of year	199	212	411
Additions	41	73	114
	240	285	525
At 31 December 2002	240	285	525
Depreciation:			
At beginning of year	64	106	170
Additions	26	45	71
	90	151	241
At 31 December 2002	90	151	241
Net book value:			
At beginning of year	135	106	241
At 31 December 2002	150	134	284
	150	134	284

## Ambac Financial Statements – Page 16

### Ambac Assurance UK Limited

#### 16 Other creditors

The net book value of other creditors is made up as follows:

	2002 £'000	2001 £'000
Corporation tax payable within one year	—	78
Accrued expenditure	1,564	1,363
Other	106	160
	1,670	1,601

Taxation payable amount for 2001 represents 2001 current tax liability of £214,000 less payment on account.

#### 17 Called up share capital

	2002 £'000	2001 £'000
Ordinary shares of £1 each:		
Authorised: 20,000,000 shares (2001: 20,000,000)	20,000	20,000
Issued and fully paid: 11,000,000 shares (2001: 11,000,000)	11,000	11,000

#### 18 Technical provisions and deferred acquisition costs

	£'000	£'000
<b>Provision for unearned premiums</b>		
<b>Gross amount</b>		
At beginning of year	73,548	50,835
Movement in the provision	6,911	22,713
<b>At end of period</b>	80,459	73,548
<b>Reinsurance amount</b>		
At beginning of year	66,193	45,751
Movement in the provision	6,220	20,442
<b>At end of period</b>	72,413	66,193
<b>Net technical provisions</b>		
<b>At end of year</b>	8,046	7,355
At beginning of year	7,355	5,084
<b>Net technical provisions at end of year</b>	8,046	7,355
<b>Deferred acquisition costs</b>		
– gross	(8,753)	(7,596)
– reinsurance commissions	7,186	6,683
	(1,567)	(913)
<b>Net insurance funds</b>	6,479	6,442

## Ambac Financial Statements – Page 17

### Ambac Assurance UK Limited

#### 19 Accruals and deferred income

The net book value of the accruals and other income is made up as follows:

	<i>£'000</i>	<i>£'000</i>
Deferred reinsurance commissions	7,186	6,683
Deferred structuring fees	979	—
	8,165	6,683
	8,165	6,683

#### 20 Statement of movement on reserves

<b>Profit and loss account</b>	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Balance at 1 January	2,264	1,789
Retained (loss) profit for the year	(247)	475
	2,017	2,264
	2,017	2,264

#### 21 Pension scheme

The company operates a money purchase pension scheme in respect of its full time employees and directors. The charge to the profit and loss account for the period was £160,000 (2001:£107,000).

#### 22 Cashflow

The company has not prepared a cashflow statement as it is a wholly owned subsidiary of Ambac Assurance Corporation which prepares financial statements including a consolidated cashflow statement.

#### 23 Related party transactions

The majority of the company's reinsurance protection is provided by its parent. The cover provided is a quota share agreement representing 90% of all credit and financial guarantee loss exposure. The net retention of all non-life financial loss business is reinsured on an excess of loss basis above an attachment point of £500,000. The reinsurance agreement includes an annual ceding commission payable to the company. Premiums of £25,102,000 (2001: £28,721,000) were ceded to the company's parent during the period, and commission of £2,506,000 (2001: £2,868,000) was payable to the company under the agreement.

In addition the parent company is required under a net worth maintenance agreement to cause the company to maintain free assets of at least £10,500,000.

The company provides suretyship insurance to Ambac Credit Products, LLC ("ACP"), an affiliate domiciled in the United States of America, which obligates the company to make payments to ACP if certain credit events occur in relation to covered structured credit default swaps. The company ceded 100% of these insurance policies to non-affiliated reinsurers. For the year ended 31 December 2002, the company recorded direct premiums of £219,000 (2001: £186,981) relating to these policies.

Ambac Assurance UK Limited

23 Related party transactions – *continued*

The company has issued financial guarantee insurance policies to the swap counterparties of Ambac Credit Products Limited (“ACPL”), a United Kingdom domiciled affiliate subject to FSA regulatory oversight, whereby the company guarantees timely payment of ACPL’s obligations under structured credit default swaps. The company recorded premiums of £242,000 during 2002 (2001: £-0-) related to these financial guarantees.

24 Commitments

There are no commitments in respect of contracts for capital expenditure not provided for. Annual commitments under non-cancellable operating leases are as follows:

	<i>Land and Buildings</i>		<i>Office Equipment</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>
Operating leases which expire:				
Within one year	19	19	—	—
Between two through five years	476	230	—	—
In more than five years	—	—	2	2

25 Ultimate parent company

The company is a wholly owned subsidiary of Ambac Assurance Corporation. The ultimate holding company is Ambac Financial Group, Inc. a company incorporated under the laws of the State of Delaware, United States of America.

The largest and smallest groups in which the results of the company are consolidated are Ambac Financial Group, Inc. and Ambac Assurance Corporation, respectively. The consolidated financial statements of both groups are available to the public and may be obtained from One State Street Plaza, New York, NY 10004, USA.

# Woolwich Life Assurance Company Limited

Annual Report and Financial Statements  
For the year ended 30 November 2002

**Registered no: 151731**

**Woolwich Life Assurance Company Limited**  
**Annual Report and Financial Statements**

**CONTENTS**

	<i>Page</i>
Directors and Officers	1
Director's Report	2
Independent Auditor's Report	6
Profit and Loss Account	7
Balance Sheet	9
Accounting Policies	11
Notes to the Financial statements	15

## **DIRECTORS AND OFFICERS**

### **Directors**

J P Hine  
I G G Balls  
C O Milson  
R Coatesworth  
D Holcroft

### **Appointed Actuary**

Robert Coatesworth

### **Company Secretary**

Barcosec Limited

### **Registered Office**

Watling Street  
Bexleyheath  
Kent  
DA6 7RR

### **Auditors**

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

## DIRECTORS' REPORT

For the year ended 30 November 2002

The directors are pleased to present their annual report and audited financial statements for the year ended 30 November 2002.

### Review of business

The Company's principal activities are the marketing and underwriting of life assurance and pensions policies. The directors consider the financial position at the end of the period to be satisfactory. Woolwich Life ceased to seek new customers through Woolwich plc retail outlets from 1 October 2002. Existing customers of Woolwich Life will continue to be able to make contributions to their Woolwich Life policies which will continue to be managed on their behalf.

Under the terms of a contract entered into by another part of the group the operational administration and associated staff of the Company will transfer to Liberata plc in April 2003.

### Results, dividends and transfers to reserves

The results for the year are set out on pages 7 to 10. During the year the Company made a profit of £3,570,000 (2001: £95,096,000) and paid a dividend of £140,000,000 (2001: £nil).

### Directors

The directors of the Company during the year were:

J P Hine  
I G G Balls  
C O Milson  
R Coatesworth (Appointed Actuary)  
I W Poston (Resigned 11 March 2002)  
D Holcroft

### Directors' Interests in Shares (as defined by section 325 the Companies Act 1985)

No director had an interest in the shares of the Company at any time during the year.

The share interests of the directors of the Company at the year end and at the beginning of the period in the share capital of Barclays PLC are set out below:

	<i>1 December 2001 (or date of appointment if later) (a)</i>	<i>30 November 2002</i>
R Coatesworth	—	—
D Holcroft	1,068	1,325
J P Hine	7,356	11,193
I G G Balls	13,892	15,382
C O Milson	12,536	6,300

Beneficial interests in the table above represent shares held by directors, either directly or through a nominee, their spouses and children under eighteen. They include any interests held through the Barclays PLC Group Share Incentive Plan (SIP).

### Notes

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002.

In addition, at 30 November 2002 Robert Coatesworth and David Holcroft together with senior executives of Woolwich plc were potential beneficiaries in respect of a total of 1,883,196 Barclays PLC ordinary shares of 25p each held by the trustee of the Woolwich Qualifying Employee Share Ownership Trust.



**Directors' interests in Shares in Barclays PLC under option under closed incentive schemes and Sharesave**

	<i>At 1 Dec</i>	<i>No. of Options</i>		<i>At 30 Nov</i>	<i>Exercise Price</i>	<i>Date from which exercisable</i>	<i>Expiry Date</i>	
	<i>2001 (25p shares)(a)</i>	<i>Granted In 2002</i>	<i>Exercised in 2002</i>	<i>2002 (25p shares)</i>				
IGG Balls	1,836	—	—	1,836	3.16	01.11.03	30.04.04	SS
	940	—	—	940	4.11	01.11.04	30.04.05	
R Coatesworth	1,260	—	1,260	—	3.08	—	—	ESOP
	10,336	—	—	10,336	4.22	25.03.02	24.03.09	
	47,144	—	—	47,144	3.84	14.12.02	13.12.09	
	13,764	—	—	13,764	3.29	17.02.03	16.02.10	
JP Hine	5,588	—	—	5,588	3.08	01.07.03	31.12.03	SS
	10,000	—	—	10,000	3.97	14.08.01	13.08.08	ESOS
	20,000	—	—	20,000	4.45	06.09.02	05.09.09	
D Holcroft	2,352	—	—	2,352	4.11	01.11.04	30.04.05	SS
	11,664	—	—	11,664	3.85	28.04.01	27.04.08	ESOP
	13,288	—	—	13,288	4.22	25.03.02	24.03.09	
	73,024	—	—	73,024	3.84	14.12.02	13.12.09	
	23,232	—	—	23,232	3.29	17.02.03	16.02.10	
CO Milson	5,588	—	—	5,588	3.08	01.07.03	31.12.03	SS
	10,000	—	10,000	—	3.97	—	—	ESOS
	10,000	—	—	10,000	4.45	06.09.02	05.09.09	ESOS
	868	—	868	—	3.16	—	—	SS
	668	—	—	668	3.08	01.11.03	30.04.04	
	548	—	—	548	3.56	01.11.04	30.04.05	
	256	—	—	256	3.16	01.11.03	30.04.04	
	1,220	—	—	1,220	4.11	01.11.04	30.04.05	
—	434	—	434	3.50	01.11.05	30.04.06		

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002.

All eligible employees have the opportunity to participate in Barclays Sharesave Scheme. Each participant may save up to £250 per month to purchase Barclays PLC shares at a discount. For the 2002 grant, the discount was 20% of the market value at the time the option was granted.

In addition, directors continue to have interests under the Woolwich plc 1998 Woolwich Executive Share Option Plan (ESOP) and the Barclays PLC Executive Share Option Scheme (ESOS). No further awards will be made under these schemes.

Under the ESOP, options originally granted over Woolwich plc shares at market value have either been exchanged, in accordance with the proposals made under the Offer to acquire Woolwich plc, for options over Barclays PLC shares or were exercisable until 24 April 2001, after which they lapsed in accordance with the plan rules and the performance conditions set at the time of grant are disappplied.

Under the ESOS, options granted (at market value) to participants are exercisable only if the growth in earnings per share of Barclays PLC over a three year period is, at least, equal to the percentage increase in the UK Retail Prices Index plus 6%, over the same period. The performance targets for the 1998 and 1999 ESOS grants have been met.

## Directors' interests in Shares in Barclays PLC under option under Incentive Share Option Plan (ISOP)

	At 1 Dec 2001(a)		Granted in 2002		At 30 Nov 2002		Exercise price per share 0.25p	Date from which exercisable	Expiry date
	Target Award Shares	Maximum Number over which potentially exercisable	Target Award Shares	Maximum Number over which potentially exercisable	Target Award Shares	Maximum Number over which potentially exercisable			
<b>IGG Balls</b>									
EP	10,000	20,000	—	—	10,000	20,000	3.90	18.05.03	17.05.10
EP	10,000	20,000	—	—	10,000	20,000	5.34	12.03.04	11.03.11
EP	—	—	10,000	20,000	10,000	20,000	5.20	20.03.05	19.03.12
<b>R Coatesworth</b>									
EP	4,000	8,000	—	—	4,000	8,000	5.34	12.03.04	11.03.11
EP	—	—	2,000	4,000	2,000	4,000	5.20	20.03.05	19.03.12
<b>JP Hine</b>									
EP	20,000	40,000	—	—	20,000	40,000	3.90	18.05.03	17.05.10
EP	20,000	40,000	—	—	20,000	40,000	5.34	12.03.04	11.03.11
EP	—	-	12,000	24,000	12,000	24,000	5.20	20.03.05	19.03.12
<b>D Holcroft</b>									
EP	18,000	36,000	—	—	18,000	36,000	5.34	12.03.04	11.03.11
<b>C Milson</b>									
EP	12,000	24,000	—	—	12,000	24,000	3.90	18.05.03	17.05.10
EP	14,000	28,000	—	—	14,000	28,000	5.34	12.03.04	11.03.11
EP	—	—	14,000	28,000	14,000	28,000	5.20	20.03.05	19.03.12

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002

The ISOP has been designed to provide the opportunity for individuals to receive rewards for exceptional performance and creating higher shareholder value. Under the ISOP, participants are granted options over Barclays PLC ordinary shares which are exercisable at the market price set at the time of grant. The number of shares over which options can be exercised depends upon the performance of the holding company, Barclays PLC, against specific targets. In establishing the performance targets, the Remuneration Committee of Barclays PLC has sought to encourage excellent business performance. For the options to be fully exercisable, Barclays PLC would have to be a leading business in the sector, relative to the peer group which is comprised of companies with similar business models and geographic coverage of Barclays.

For options subject to the EP performance measure, where the cumulative EP is below the target range at the end of the three year performance period, options over half of the target award shares will become exercisable. Where the cumulative EP is above the target range, the options over double the number of target award shares will become exercisable.

A relative ranking of sixth place or higher will result in those options subject to the TSR measure becoming exercisable at the third anniversary after grant. If Barclays PLC is ranked fourth, fifth or sixth in the peer group, the options will become exercisable over the target award shares. If Barclays PLC is ranked third, second or first in the peer group then the options will become exercisable over double, triple or quadruple the target award shares, respectively. However, if Barclays PLC is ranked below sixth after three years, there will be a retest on the fourth anniversary, over the full four-year period. If Barclays PLC is not ranked sixth or higher after four years, the options will lapse.

### Creditors' payment policy

The Company's policy concerning the payment of creditors is to follow the CBI Prompt Payers' Code of Good Practice which states that a company should have a clear, consistent policy adhered to by the finance and purchasing departments, to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising of disputes. Trade creditor payment days calculated in accordance with paragraph 12(3) of Schedule 7 of the Companies Act 1985 were 34 days at 30 November 2002 (2001: 10 days).

### Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership from 1 January 2003, PricewaterhouseCoopers resigned on 11 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP.

On 30 April 1999 an Elective Resolution was passed by the shareholders of the Company pursuant to section 386 of the Companies Act 1985 to dispense with the obligations to re-appoint the Auditors annually. PricewaterhouseCoopers LLP have signified their willingness to continue in office.

#### **Statement of Directors' Responsibilities**

The following statement, which should be read in conjunction with the Auditors' Report set out on page 6, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the Auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on Pages 7 to 24,

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

For and on behalf of the Board

Director

4 March 2003

## **Independent Auditors' Report To The Members Of Woolwich Life Assurance Company Limited**

We have audited the financial statements on pages 7 to 24, which comprise the profit and loss account, the balance sheet, and the related notes, which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 14.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 November 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
4 March 2003

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 NOVEMBER 2002

Technical Account – Long Term Business

		2002 12 months £000	2001 11 months £000
Earned premiums, net of reinsurance			
Gross premiums written	1	74,733	92,852
Outward reinsurance premiums		(5,989)	(5,568)
		<u>68,744</u>	<u>87,284</u>
Investment income (including realised gains)	2	17,100	17,893
Other technical income, net of reinsurance-group undertakings	18	218	115,152
		<u>86,062</u>	<u>220,329</u>
Claims incurred, net of reinsurance			
Claims paid			
– gross amount		(83,467)	(71,545)
– reinsurers' share		4,319	3,486
		<u>(79,148)</u>	<u>(68,059)</u>
Change in the provision for claims			
– gross amount		(1,033)	78
– reinsurers' share		847	161
		<u>(186)</u>	<u>239</u>
		<u>(79,334)</u>	<u>(67,820)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
– gross amount		37,542	15,430
		<u>37,542</u>	<u>15,430</u>
Other technical provisions, net of reinsurance			
– technical provisions for linked liabilities		47,445	20,041
		<u>84,987</u>	<u>35,471</u>
Net operating expenses	3	348	(33,991)
Investment expenses and charges	2	(23,477)	(3,137)
Unrealised losses on investments	2	(48,212)	(60,996)
Other technical expense, net of reinsurance-group undertakings	19	(13,152)	—
Tax attributable to the long term business	6	(4,500)	4,333
		<u>(88,993)</u>	<u>(93,791)</u>
Balance on the technical account – long term business		<u>2,722</u>	<u>94,189</u>

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

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30 NOVEMBER 2002**

**Non-Technical Account**

		<i>2002</i>	<i>2001</i>
		<i>12 months</i>	<i>11 months</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b>Balance on the long term business technical account</b>		2,722	94,189
Tax credit attributable to the balance on the long term Business technical account	6	4,500	(4,333)
Shareholders' pre-tax profit from long term business		7,222	89,856
Investment Income (including realised gains)	2	1,241	1,313
Other charges including value adjustments		(30)	(18)
Profit on ordinary activities before tax	4	8,433	91,151
Tax on ordinary activities	6	(4,863)	3,945
Profit for the financial year		3,570	95,096
Dividends payable	7	(140,000)	—
<b>Retained profit/(loss) for the financial year</b>	14	<u>(136,430)</u>	<u>95,096</u>

All the amounts above are in respect of continuing operations.

All recognised gains and losses are dealt with in the Profit and Loss account.

**BALANCE SHEET  
AS AT 30 NOVEMBER 2002**

**Assets**

	<i>Notes</i>	<i>2002 £000</i>	<i>2001 £000</i>
<b>Investments</b>			
Investments in Group undertakings and participating Interests	9	5,039	15,328
Other financial investments	10	129,122	263,949
		<u>134,161</u>	<u>279,277</u>
<b>Assets held to cover linked liabilities</b>	11	479,553	532,616
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		1,970	1,123
		<u>1,970</u>	<u>1,123</u>
<b>Debtors</b>			
Other debtors	19	103,605	118,737
Due from Group companies		1,635	—
		<u>105,240</u>	<u>118,737</u>
<b>Other assets</b>			
Tangible Assets	12	50	137
Cash at bank and in hand		435	1,577
		<u>485</u>	<u>1,714</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1,524	3,579
Other prepayments and accrued income		—	29
		<u>1,524</u>	<u>3,608</u>
<b>Total assets</b>		<u><u>722,933</u></u>	<u><u>937,075</u></u>

**BALANCE SHEET  
AS AT 30 NOVEMBER 2002**

**Liabilities**

	<i>Notes</i>	<i>2002 £000</i>	<i>2001 £000</i>
<b>Capital and reserves</b>			
Called up share capital	13	30,000	30,000
Profit and loss account	15	19,388	155,818
		<hr/>	<hr/>
Equity Shareholders' funds	14	49,388	185,818
<b>Technical provisions</b>			
Long term business provision		60,517	98,059
Claims outstanding		3,314	2,281
		<hr/>	<hr/>
		63,831	100,340
<b>Technical provisions for linked liabilities</b>	11	478,654	526,099
<b>Provisions for other risks and charges</b>	17	—	—
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	469	688
Other creditors: group undertakings	19	122,013	115,532
Other creditors including taxation and social security	20	8,578	8,598
		<hr/>	<hr/>
		131,062	124,818
		<hr/>	<hr/>
<b>Total liabilities</b>		<u>722,933</u>	<u>937,075</u>

The financial statements on pages 7 to 24 were approved by the Board of Directors on 4 March 2003.

J P Hine  
Managing Director

I G G Balls  
Director



## **ACCOUNTING POLICIES**

### **Basis of accounting**

The financial statements have been in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers on 23 December 1998.

As the Company's financial statements are consolidated in the financial statements of Woolwich plc, the Company has taken advantage of the exemption clauses in Financial Reporting Standard 8 in respect of transactions with group companies, which are also related parties.

The Company's ultimate holding company has adopted the provisions of Financial Reporting Standard 1 ("FRS 1") revised 1996, Cash Flow Statements. Accordingly the Company, which is a wholly owned subsidiary of Woolwich plc, has elected to utilise the exemption provided in FRS 1 not to produce a cash flow statement.

### **Premiums**

Premiums for unit linked business are accounted for when the policy liability is established. Other premiums are accounted for when due for payment.

### **Long-term reinsurance contracts**

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency, and expenses. Such contracts are accounted for as insurance contracts.

### **Investment income, expenses and charges**

Investment income, expenses and charges are included in the long term business technical account to the extent that they relate to long term business. Other investment income and expenses are included in the non-technical account.

Dividend income is accounted for when the shares are quoted ex-dividend and unit trust income is accounted for on a receivable basis.

Interest, expenses and charges are accounted for on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sale proceeds and original cost.

### **Unrealised Gains and Losses on Investments**

Unrealised gains and losses recorded in the profit and loss account represent the changes in value during the year of investments held at the balance sheet date and the reversal of changes in prior periods on investments disposed of in the year. Unrealised gains and losses are included in the long term business technical account to the extent that they relate to long term business. Other unrealised gains and losses are included in the non technical account.

### **Claims**

Death claims, critical illness claims and surrenders are accounted for when notified and maturities are recognised when due for payment. Claims payable include the claims handling costs relating to settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

### **Long Term Business Provision**

The long term business provision is determined by the Appointed Actuary, following his annual investigation of the long term business and is calculated initially to comply with regulatory reporting requirements. A gross premium valuation method is used for all business with the exception of unit linked contracts where the provisions are based on the market value of the related assets. The statutory solvency basis of valuation is then adjusted by eliminating the

undistributed surplus determined by that valuation, general contingency reserves, certain reserves required under the insurance companies regulations and deferred acquisition costs allowed for in the valuation.

### **Depreciation**

Depreciation of tangible fixed assets is provided on a straight line basis at the following annual rates:

Office equipment	5 years
Computer equipment and software	4 years
Motor vehicles	4 years

### **Finance Leases**

Assets acquired under finance leases are included within tangible assets and the corresponding commitments for future payments are included within creditors, net of future finance charges. Finance charges are accounted for on a systematic basis over the life of each lease.

### **Retirement Benefits**

The Company is a contributor to the Barclays Bank PLC Pension Scheme which comprises a funded defined benefit scheme. The fund is valued every three years by a professionally qualified independent actuary, using the projected unit method. Costs are not determined for each individual company and hence contributions are charged in the Long Term Business Technical Account in the period in which they become payable.

### **Investments**

All investments are stated at their current value as detailed below:

Debt securities, other fixed income securities and structured instruments are at middle market prices.

Listed investments are valued at the mid market value on the balance sheet date or on the last Stock Exchange trading day before the balance sheet date.

Unit Trusts are stated at the bid price.

### **Taxation**

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19, issued in December 2000. The Company has chosen not to apply the option available under FRS 19 of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Different tax rules apply under UK law depending upon whether the business is life insurance or pension business. Tax on the life insurance business is based on investment returns less expenses attributable to that business. Tax on the pension business is based on the shareholders' profits or losses attributable to that business. The shareholders' portion of the long-term business is taxed at the shareholders' rate with the remaining portion taxed at rates applicable to the policyholders.

The balance of the long-term business technical account is net of the total tax attributable to the long-term business. In order to present the profit on long-term insurance activities in the non-technical account on a pre-tax basis, a tax credit attributable to the shareholders' portion of the tax provision for long-term business, calculated at the effective tax rate (where appropriate on a long-

term basis) of the underlying business, is added. This shareholder tax add-back is then included in the tax expense on the profit on ordinary activities within the non-technical account. Further details are provided in note 6.

There are no unrecognised deferred tax assets or liabilities.

#### **Contingent loan**

Loans, together with the interest payable thereon, the repayments of which are contingent upon the emergence of margins generated from future premiums or other income, are classified and recognised as liabilities.

The present value of that part of the future margins, which are expected to finance the repayment, is recognised as an asset in the balance sheet and included in 'other debtors'.

Where the expected future margins will not be sufficient to cover the contingent loan repayments and the deferred acquisition costs, the deferred acquisition costs are reduced accordingly.

#### **Foreign currency**

Trading results denominated in foreign currencies are translated into sterling at average rates of exchange during the year. Assets and liabilities are translated at the exchange rate ruling at the period end except where rates of exchange are fixed under contractual arrangements. Exchange differences are taken to the profit and loss account as they arise.

#### **Changes in accounting policies**

The provisions of FRS19 "Deferred Tax" have been adopted for the first time in these financial statements. As a consequence, full provision is required for deferred tax on tax assets and liabilities arising on timing differences.

Adoption of this accounting policy has had no effect on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SEGMENTAL ANALYSIS

Gross premiums written (all direct individual business)

	<i>Regular premiums</i>		<i>Single premiums</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-participating:				
Life	18,034	17,672	—	16,731
Pensions	2,166	2,240	—	—
	<u>20,200</u>	<u>19,912</u>	<u>—</u>	<u>16,731</u>
Linked:				
Life	54,449	56,051	—	—
Pensions	48	43	36	115
	<u>54,497</u>	<u>56,094</u>	<u>36</u>	<u>115</u>
	<u><u>74,697</u></u>	<u><u>76,006</u></u>	<u><u>36</u></u>	<u><u>16,846</u></u>

Gross new business premiums (all direct individual business)

	<i>Regular premiums</i>		<i>Single premiums</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-participating:				
Life	168	5,415	—	16,731
Pensions	—	3	—	—
	<u>168</u>	<u>5,418</u>	<u>—</u>	<u>16,731</u>
Linked:				
Life	141	—	—	—
Pensions	3	101	—	115
	<u>144</u>	<u>101</u>	<u>—</u>	<u>115</u>
	<u><u>312</u></u>	<u><u>5,519</u></u>	<u><u>—</u></u>	<u><u>16,846</u></u>

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

- Increments under existing group pension schemes are classified as new single business premiums
- Where regular premiums are received other than annually the reported new business premiums are on an annualised basis

#### Assets attributable to the long term business fund

Of the total amount of assets shown on page 8, £703,298,000 (2001: £765,516,000) was attributable to the long term business fund.

#### Geographical Analysis

All business is conducted in the UK.

## Reinsurance balance

The reinsurance balance amounted to a debit to the long term business technical account at 30 November 2002 of £823,000 (2001: £1,921,000).

## 2. INVESTMENT RETURN SUMMARY

### Long term business technical account

	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Investment Income:		
Income from other investments – listed	17,100	17,893
Investment expenses and charges:		
Investment management expenses, including interest	(1,287)	(791)
Net losses on the realisation of investments	(16,015)	(2,346)
Group interest on loan	(6,175)	
	<u>(23,477)</u>	<u>(3,137)</u>
Net unrealised losses on investments	<u>(48,212)</u>	<u>(60,996)</u>
Net investment return included in the long term business Technical Account	<u>(54,589)</u>	<u>(46,240)</u>
<b>Non-technical account</b>		
Investment Income:		
Income from other investments – other	1,241	1,313
Investment expenses and charges:		
Investment management expenses, including interest	(30)	(18)
Net investment return included in the non-technical account	<u>1,211</u>	<u>1,295</u>
Total investment return	<u><u>(53,378)</u></u>	<u><u>44,945</u></u>

## 3. NET OPERATING EXPENSES

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Acquisition costs	(2,792)	8,091
Change in deferred acquisition costs (refer to note 19)	—	23,428
Administrative expenses	4,681	3,857
Experience rebate	(2,237)	(1,386)
	<u>(348)</u>	<u>33,991</u>

#### 4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<i>2002</i> £'000	<i>2001</i> £'000
Auditors' remuneration:		
Audit services	49	55
Non-audit services	—	18
Total auditors' remuneration	<u>49</u>	<u>73</u>
Depreciation of tangible fixed assets:		
Owned assets	—	48
Leased assets	10	10
Total depreciation charge	<u>10</u>	<u>58</u>
Wages and salaries	754	1,323
Social security costs	70	105
Other pension costs	33	168
Total staff costs	<u>857</u>	<u>1,596</u>

During 2002 the salary costs were borne by Barclays Bank PLC who were reimbursed to that company. The average monthly numbers of employees during the period is included in the accounts of Barclays Bank PLC for 2002 (2001: 70). The employees were involved in the management and central administration of the Company. The investment administration and management is carried out by a third party.

#### 5. DIRECTORS' EMOLUMENTS

	<i>2002</i> £'000	<i>2001</i> £'000
For services as directors and other emoluments		
Paid by the Company	122	126
	<u>122</u>	<u>126</u>

The remuneration of the highest paid director was less than £200,000, with no accrued pension for the year to 30 November 2002 and 2001. Retirement benefits are accruing for two directors under a defined benefit scheme at 30 November 2002 and three directors at 31 November 2001.

There were no loans during the period to directors or officers of the Company or other transactions, arrangements and agreements which require disclosure in accordance with Schedule 6 of the Companies Act 1985 or FRS 8 'Related Party Transactions'.

Information relating to the directors' options is provided in the directors' report on pages 2 to 5.

## 6. TAXATION

### (i) Profit and loss account tax (credit) charge

The tax expense for certain long-term business operations is attributable to shareholders and policyholders. The shareholders' portion of tax is determined using the long-term effective tax rate of the underlying business applied to the profits transferred to the non-technical account. A summary of the tax expense attributable to the long-term business technical account and shareholders' profits in the non-technical account is shown below:

	<i>Long-term business technical account</i>		<i>Non technical account</i>	
	<i>2002 £000</i>	<i>2001 £000</i>	<i>2002 £000</i>	<i>2001 £000</i>
<b>(a) Between current and deferred tax expense (benefit)</b>				
Current: UK	4,500	353	363	388
Deferred: UK	—	(4,686)	—	—
Total	4,500	(4,333)	363	388
<b>(b) By category of tax expense (benefit)</b>				
UK Corporation Tax	4,500	353	363	388
Deferred Tax	—	(4,686)	—	—
Shareholder tax attributable to balance on the long-term business technical account	—	—	4,500	(4,333)
	4,500	(4,333)	4,863	(3,945)
<b>(c) By source of profit (losses)</b>				
Tax on operating profit (based on long-term investment returns)				
Long term business:			4,500	(4,333)
General business and shareholders			363	388
Tax on investment returns			—	—
Tax on profit on ordinary activities			4,863	(3,945)

**(d) Factors affecting tax charge for period**

The tax assessed in the period in the period is lower than the standard rate of corporation tax in the UK and the differences are explained below.

The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits will be taxed.

	2002 £000	2001 £000
Profit on ordinary activities before tax	8,433	91,151
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	2,530	27,345
Effects of:		
Non taxable contingent loan capital payment	3,900	—
UK tax relief	(1,549)	(761)
Non taxable contingent loan capital receipt	—	(34,500)
Tax on reserves movement	—	1,627
Non taxable deferred acquisition costs charge	—	7,028
Deferred tax on deferred acquisition costs	—	(4,686)
Other differences	(18)	2
Current tax charge for the period	4,863	(3,945)

Comparative figures for 2001 have not been restated for the implementation of FRS 19 on deferred tax as there are no material differences.

**(ii) Deferred Tax**

The components of the net deferred tax liability are as follows. The balances have not been discounted.

	<i>Liability provided (Asset recognised)</i>	
	2002 £000	2001 £000
<b>(a) By category of timing difference</b>		
Deferred acquisition costs	—	(4,686)
	—	(4,686)
<b>(b) By fund</b>		
Long term business technical account	—	(4,686)
	—	(4,686)
<b>(c) Reconciliation of movements in deferred tax</b>		
Deferred tax liability at beginning of year	—	4,686
Deferred tax credited in profit and loss account for the year	—	(4,686)
	—	—

**7. DIVIDENDS**

	2002 £'000	2001 £'000
Dividends on ordinary shares:		
Final paid 4.67p (2001: 0p) per £1 share	140,000	—



## 8. PENSION COMMITMENTS

The Barclays Group provides pension benefits to employees in the UK through the Barclays Bank UK Retirement Fund ('UKRF'), which contains a defined benefit section. The UKRF is a group scheme, details of which are given in the financial statements of Barclays Bank PLC. Contributions to the group scheme amounted to £nil (2001: £168,102) and are based on pension costs across the Barclays Group as a whole. Since the company is unable to identify its share of the underlying assets and liabilities of the UKRF, under Financial Reporting Standard 17 (FRS 17), contributions to the scheme will be accounted for as if they were contributions to a defined contribution scheme. As at 31 December 2002, the UKRF had a deficit disclosed for FRS 17 purposes of £1,300m (2001 surplus of £377m) in the financial statements of Barclays Bank PLC. However, as a result of the continuing funding surplus in the UKRF, the current contribution holiday is expected to continue until 2004.

## 9. INVESTMENTS IN GROUP UNDERTAKINGS AND OTHER PARTICIPATING INVESTMENTS

	<i>Current value</i>		<i>Cost</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debt securities issued by Group undertakings	5,039	15,328	5,000	15,000

## 10. OTHER FINANCIAL INVESTMENTS

	<i>Current value</i>		<i>Cost</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debt securities and other fixed income securities	57,474	185,607	57,646	200,342
Deposits with credit institutions	71,648	78,342	71,648	78,342
	129,122	263,949	129,294	278,684

## 11. ASSETS TO COVER LINKED LIABILITIES

	<i>Current value</i>		<i>Cost</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets held to cover linked liabilities	479,553	532,616	532,684	539,717

Linked assets differ from linked liabilities as detailed below:

	<i>Current value</i>	
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Linked Assets	479,553	532,616
Reserve for unrealised gains	—	(3,420)
Realised CGT	—	—
Other liabilities	(164)	(2,391)
Surplus assets	(735)	(706)
Linked liabilities	478,654	526,099

## 12. TANGIBLE FIXED ASSETS

	<i>Equipment</i> £000	<i>Assets held under finance leases</i> £000	<i>Total</i> £000
<b>Cost</b>			
At 1 December	267	62	329
Additions	—	32	32
Disposals	(267)	(15)	(282)
	<hr/>	<hr/>	<hr/>
At 30 November	—	79	79
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>			
At 1 December	170	22	192
Charge for the period	—	10	10
Disposals	(170)	(4)	(174)
	<hr/>	<hr/>	<hr/>
At 30 November	—	28	28
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 30 November 2002	—	50	50
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 November 2001	97	40	137
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 13. CALLED UP SHARE CAPITAL

	<i>2002</i> £000	<i>2001</i> £000
Authorised		
40,000,000 ordinary shares of £1 each	40,000	40,000
	<hr/> <hr/>	<hr/> <hr/>
Allotted and fully paid		
30,000,000 ordinary shares of £1 each	30,000	30,000
	<hr/> <hr/>	<hr/> <hr/>

## 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>2002</i> £000	<i>2001</i> £000
Profit for the period	3,570	95,096
Dividend paid	(140,000)	—
Opening shareholders' funds	185,818	90,722
	<hr/>	<hr/>
Closing shareholders' funds	49,388	185,818
	<hr/> <hr/>	<hr/> <hr/>

## 15. PROFIT AND LOSS ACCOUNT

	<i>2002</i> £'000	<i>2001</i> £000
Profit for period	3,570	95,096
Dividend paid	(140,000)	—
Balance at 1 December	155,818	60,722
	<hr/>	<hr/>
Balance at 30 November	19,388	155,818
	<hr/> <hr/>	<hr/> <hr/>

£17,901,000 (2001: £15,237,000) of the above reserves is held within the long term fund as an unrealised surplus.

## 16. LONG TERM BUSINESS PROVISION

- The long-term business provision has been calculated using a cash flow method for unit-linked policies and a gross premium method for conventional policies. The provision for conventional policies has been increased by the removal of the contribution for initial acquisition expenses.
- The principal assumptions underlying the calculation, for conventional business, were as follows:

<i>Class of Business</i>	<i>2002 Mortality</i>	<i>2002 Interest Rate %</i>	<i>2001 Mortality</i>	<i>2001 Interest Rate %</i>
Term Assurances	A67/70 Ult*	3.00	A67/70 Ult*	3.00
Guaranteed Income Bond	A67/70 Ult	3.75	A67/70 Ult	3.86

\* With adjustment for AIDS

- For linked business, the unit liability was based on the value of units at bid price. The principal assumptions underlying the calculation of the non-unit liability were as follows:

### Economic Assumptions

<i>Class of Business</i>	<i>2002 Interest Rate %</i>	<i>Inflation Rate %</i>	<i>Unit Price Growth Rate before charges and tax %</i>	<i>2001 Interest Rate %</i>	<i>Inflation Rate %</i>	<i>Unit Price Growth Rate before Charges %</i>
Life	4.00	5.00	6.00	4.00	5.00	6.00

### Other Assumptions

<i>Class of Business</i>	<i>2002 Mortality Table</i>	<i>Expenses - Regular(£)</i>	<i>2001 Mortality Table</i>	<i>Expenses - Regular(£)</i>
Life	A67/70 Ult*	30.97	A67/70 Ult*	30.97

\*With adjustment for AIDS

## 4. Deferred Tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate business.

## 17. PROVISIONS FOR OTHER RISKS AND CHARGES

	<i>2002 £'000</i>	<i>2001 £'000</i>
Opening provision for deferred taxation relating to deferred acquisition costs	—	4,686
Increase/(decrease) to provision in period	—	(4,686)
Closing provision for deferred taxation relating to deferred acquisition costs	—	—

## 18. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	<i>2002 £000</i>	<i>2001 £000</i>
Commission payable to Group undertaking	—	163
Amounts due to reinsurers	469	525
	<u>469</u>	<u>688</u>

## 19. CONTINGENT LOAN

'Other creditors: group undertakings' includes an amount of £121,328,000 (2001: £115,152,000) representing the Company's liability arising from a contingent loan agreement entered into with Barclays Bank PLC. The terms of the loan and interest thereon, are that the repayment is contingent on the emergence of margins generated from future premiums or other income, that is, on sufficient surplus being available to meet the service and repayment of the loan.

The present value of that part of the future margins, which are expected to finance the repayment of the loan of £102,000,000 (2001: £115,152,000) has been recognised as an asset in the balance sheet and included in 'other debtors'. This resulted in a £13,152,000 (2001: £0) expense being recognised as 'other technical expense net of reinsurance – group undertakings' in the Technical Account.

The loan bears interest at LIBOR plus 1.25%, and subject to the emergence of surplus is expected to be repaid by 2017. The first scheduled repayment is due 45 days after the end of the 2002 accounting period.

There is a remote possibility that the basis of taxation of the loan and its repayment will be challenged successfully by the taxation authorities.

## 20. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2002 £000	2001 £000
<b>Due within one year</b>		
Corporation tax payable	5,856	4,853
Other creditors	2,696	3,707
Obligations under finance leases	7	38
	<hr/>	<hr/>
Payable within one year	8,559	8,590
	<hr/>	<hr/>
<b>Due after one year</b>		
Obligations under finance leases between two and five years	19	8
	<hr/>	<hr/>
Total other creditors	8,578	8,598
	<hr/> <hr/>	<hr/> <hr/>

The maturity of obligations under finance leases is as follows:

Within one year	7	30
In the second to fifth years	19	8
	<hr/>	<hr/>
	26	38
Less: future finance charges	(21)	(8)
	<hr/>	<hr/>
	5	30
	<hr/> <hr/>	<hr/> <hr/>

## 21. LEGAL AND GENERAL ALLIANCE

On 18 January 2002 Barclays Bank PLC and Legal and General Group PLC formed a strategic alliance under which Woolwich plc would, subject to regulatory approval, sell Legal and General branded life and pension products through its UK distribution network. As a result the Company ceased to seek new customers through Woolwich plc retail outlets from 1 October 2002. Existing customers of the Company will continue to be able to make contributions to their policies which will continue to be managed on their behalf.

## 22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under the provisions of Financial Reporting Standard 8 ("FRS 8"), Related Party Disclosures not to disclose transactions with other group companies since the Company is a 100% owned subsidiary of Barclays Bank PLC, the consolidated financial statements of which are publicly available. During the period there have been no transactions with related parties other than group companies.

### 23. ULTIMATE HOLDING COMPANY

The parent undertaking of the smallest group that presents group accounts is Woolwich plc. The ultimate holding company and the parent company of the largest group that presents group accounts is Barclays PLC. Both companies are incorporated in Great Britain and registered in England and Wales. Barclays PLC's and Woolwich plc's statutory accounts are available from the Secretary, 54 Lombard Street, London EC3P 3AH. Woolwich plc holds 100% of the issued share capital.

# **Barclays Life Assurance Company Limited**

Annual Report And Financial Statements

30 November 2002

**Registered no: 858511**

# BARCLAYS LIFE ASSURANCE COMPANY LIMITED

## Annual Report And Financial Statements

CONTENTS	<i>Page</i>
Directors and Officers	2
Directors' Report	3
Independent Auditors' Report	9
Profit and Loss Account	10
Balance Sheet	12
Accounting Policies	14
Notes to the Financial Statements	17

## BARCLAYS LIFE ASSURANCE COMPANY LIMITED

### DIRECTORS AND OFFICERS

#### Directors

Edward Arthur Tilly (Chairman)  
Robert Graham Dench (Managing Director)  
Ian George Gordon Balls  
Martin John Ronan Foran  
John Philip Hine  
Martin Richard Mosley  
Robert James Hall  
Christopher Owen Milson

#### Appointed Actuary

Ian George Gordon Balls

#### Company Secretary

Barcosec Limited

#### Registered Office

54 Lombard Street  
London  
EC3P 3AH

#### Auditors

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY



## BARCLAYS LIFE ASSURANCE COMPANY LIMITED

### DIRECTORS' REPORT FOR THE 12 MONTH PERIOD ENDED 30 NOVEMBER 2002

The directors present their report together with the audited financial statements for the year ended 30 November 2002.

#### Principal Activities and review of the business

The Directors consider the financial position at the end of the year to be satisfactory. Barclays Life ceased to seek new customers through Barclays Bank retail outlets, from 1 August 2001. Existing customers of Barclays Life will continue to be able to make contributions to their Barclays Life policies which will continue to be managed on their behalf.

In October 2002 the company signed a contract to transfer the operational administration and associated staff to Liberata plc.

#### Change of the financial year

The Company changed its financial year to 30 November, during the last accounting period. Accordingly 2001 financial information is in respect of the eleven months to that date. 2002 financial information is for twelve months ended 30 November 2002.

#### Results, dividends and transfers to reserves

The results for the year are set out on pages 9 to 25. During the year the Company made a loss of £60,857,000 (2001: Profit of £640,773,000) and paid a dividend of £700,000,000 (2001:nil).

#### Directors

The names of the current Directors are listed on page 2. All held office throughout the period.

#### Directors' Interests in Shares (as defined by section 325 the Companies Act 1985)

The directors have no interests in the shares of the Company. The directors' interests in the ordinary shares of Barclays PLC, the ultimate holding company, are shown below.

#### Directors' Interest in Barclays PLC ordinary Shares of 25p each

	<i>1 December 2001<sup>(a)</sup></i>	<i>30 November 2002</i>
I G G Balls	13,892	15,382
R G Dench	12,684	4,666
M J R Foran	3,892	2,252
RJ Hall	376	376
J P Hine	7,356	11,193
C O Milson	12,536	6,300
M R Mosley	8,916	7,981
E A Tilly	1,252	1,252

Beneficial interests in the table above represent shares held by directors, either directly or through a nominee, their spouses and children under eighteen. They include any interests held through the Barclays PLC Group Share Incentive Plan (SIP).

#### Notes

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002.

In addition, at 30 November 2002 R G Dench together with senior executives of the ultimate holding company were potential beneficiaries in respect of a total of 70,656,045 Barclays PLC ordinary shares of 25p each (1st January 2002 10,480,077 ordinary shares of £1 each in Barclays PLC) held by the trustees of the Barclays Group Employees' Benefit Trusts.

#### Directors' interests in Shares in Barclays PLC under option under Incentive Share Option Plan (ISOP)

	At 1 Dec 2001 <sup>(a)</sup>		Granted in 2002		At 30 Nov 2002		Exercise price per share 0.25p	Date from which exercisable	Expiry date
	Target Award Shares	Maximum Number over which potentially exercisable	Target Award Shares	Maximum Number over which potentially exercisable	Target Award Shares	Maximum Number over which potentially exercisable			
<b>IGG Balls</b>									
EP	10,000	20,000	—	—	10,000	20,000	3.90	18.05.03	17.05.10
EP	10,000	20,000	—	—	10,000	20,000	5.34	12.03.04	11.03.11
EP	—	—	10,000	20,000	10,000	20,000	5.20	20.03.05	19.03.12
<b>RG Dench</b>									
EP	24,000	48,000	—	—	24,000	48,000	3.90	18.05.03	17.05.10
EP	24,000	48,000	—	—	24,000	48,000	5.34	12.03.04	11.03.11
EP	—	—	24,000	48,000	24,000	48,000	5.20	20.03.05	19.03.12
<b>MJR Foran</b>									
RJ Hall	—	—	—	—	—	—	—	—	—
<b>JP Hine</b>									
EP	20,000	40,000	—	—	20,000	40,000	3.90	18.05.03	17.05.10
EP	20,000	40,000	—	—	20,000	40,000	5.34	12.03.04	11.03.11
EP	—	—	12,000	24,000	12,000	24,000	5.20	20.03.05	19.03.12
<b>C Milson</b>									
EP	12,000	24,000	—	—	12,000	24,000	3.90	18.05.03	17.05.10
EP	14,000	28,000	—	—	14,000	28,000	5.34	12.03.04	11.03.11
EP	—	—	14,000	28,000	14,000	28,000	5.20	20.03.05	19.03.12
<b>MR Mosley</b>									
EP	12,000	24,000	—	—	12,000	24,000	3.90	18.05.03	17.05.10
EP	20,000	40,000	—	—	20,000	40,000	5.34	12.03.04	11.03.11
EP	—	—	12,000	24,000	12,000	24,000	5.20	20.03.05	19.03.12
<b>EA Tilly</b>									
	—	—	—	—	—	—	—	—	—

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002

The ISOP has been designed to provide the opportunity for individuals to receive rewards for exceptional performance and creating higher shareholder value. Under the ISOP, participants are granted options over Barclays PLC ordinary shares which are exercisable at the market price set at the time of grant. The number of shares over which options can be exercised depends upon the performance of the holding company, Barclays PLC, against specific targets. In establishing the performance targets, the Remuneration Committee of Barclays PLC has sought to encourage excellent business performance. For the options to be fully exercisable, Barclays PLC would have to be a leading business in the sector, relative to the peer group which is comprised of companies with similar business models and geographic coverage of Barclays.

For options subject to the EP performance measure, where the cumulative EP is below the target range at the end of the three year performance period, options over half of the target award shares will become exercisable. Where the cumulative EP is above the target range, the options over double the number of target award shares will become exercisable.

A relative ranking of sixth place or higher will result in those options subject to the TSR measure becoming exercisable at the third anniversary after grant. If Barclays PLC is ranked fourth, fifth or sixth in the peer group, the options will become exercisable over the target award shares. If Barclays PLC is ranked third, second or first in the peer group then the options will become exercisable over double, triple or quadruple the target award shares, respectively. However, if Barclays PLC is ranked below sixth after three years, there will be a retest on the fourth anniversary, over the full four-year period. If Barclays PLC is not ranked sixth or higher after four years, the options will lapse.

## Directors' interests in Shares in Barclays PLC under option under closed incentive schemes and Sharesave

	<i>At 1 Dec 2001 (25p shares)<sup>(a)</sup></i>	<i>No. of Options</i>		<i>At 30 Nov 2002 (25p shares)</i>	<i>Exercise Price 0.25p</i>	<i>Date from which exercisable</i>	<i>Expiry Date</i>	
		<i>Granted in 2002</i>	<i>Exercised in 2002</i>					
I G G Balls	1,836	—	—	1,836	3.16	01.11.03	30.04.04	SS
	940	—	—	940	4.11	01.11.04	30.04.05	
	1,260	—	1,260	—	3.08	—	—	
R G Dench	11,356	—	—	11,356	3.47	05.09.00	04.09.04	ESOS
	20,000	—	—	20,000	3.97	14.08.01	13.08.08	
	8,388	—	—	8,388	—	06.09.02	05.09.09	PSP
	8,220	—	—	8,220	1.99	01.11.03	30.04.04	SS
	984	—	—	984	3.16	01.11.04	30.04.05	
	1,976	—	—	1,976	4.11	01.11.04	30.04.05	
	—	434	—	434	3.50	01.11.05	30.04.06	
M J R Foran	—	—	—	—				
R J Hall	—	—	—	—				
J P Hine	10,000	—	—	10,000	3.97	14.08.01	13.08.08	ESOS
	20,000	—	—	20,000	4.45	06.09.02	05.09.09	
	2,352	—	—	2,352	4.11	01.11.04	30.04.05	SS
C O Milson	10,000	—	10,000	—	3.97	—	—	ESOS
	10,000	—	—	10,000	4.45	06.09.02	05.09.09	
	868	—	868	—	3.16	—	—	SS
	668	—	—	668	3.08	01.11.03	30.04.04	
	548	—	—	548	3.56	01.11.04	30.04.05	
	256	—	—	256	3.16	01.11.03	30.04.04	
	1,220	—	—	1,220	4.11	01.11.04	30.04.05	
	—	434	—	434	3.50	01.11.05	30.04.06	
M R Mosley	10,000	—	—	10,000	3.97	14.08.01	13.08.08	ESOS
	10,000	—	—	10,000	4.45	06.09.02	05.09.09	
	2,460	—	—	2,460	3.16	01.11.04	30.04.05	SS
	2,524	—	—	2,524	3.08	01.11.05	30.04.06	
	1,028	—	—	1,028	3.56	01.11.06	30.04.07	
E A Tilly	—	—	—	—				

(a) to aid comparison Barclays PLC ordinary shares are shown as 25p shares in all instances to reflect the 4 for 1 share split approved by shareholders on 25 April 2002.

All eligible employees have the opportunity to participate in Barclays Sharesave Scheme. Each participant may save up to £250 per month to purchase Barclays PLC shares at a discount. For the 2002 grant, the discount was 20% of the market value at the time the option was granted.

In addition, directors continue to have interests under the Performance Share Plan (PSP) and Executive Share Option Scheme (ESOS). No further awards will be made under these schemes. Under PSP, participants were awarded a right to acquire shares, the number of which is determined by the relative TSR performance of Barclays PLC against a FT-SE 100 index comparator group of companies. Under the ESOS, options granted (at market value) to participants are exercisable only if the growth in earnings per share of Barclays PLC over a three year period is, at least, equal to the percentage increase in the UK Retail Prices Index plus 6%, over the same period. The performance targets for the 1998, 1999 and [2000] ESOS grants [have been met].

### Creditors' payment policy

The Company's policy is to follow the CBI Prompt Payers' Code of Good Practice which states that a company should have a clear, consistent policy adhered to by the finance and purchasing departments, to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes. Trade creditor payment days calculated in accordance with paragraph 12(3) of Schedule 7 to the Companies Act 1985 were 33 days as at 30 November 2002 (2001: 39 days)

## **Employees**

### **1 Employee involvement**

The Company maintains a regular programme of meetings in each of its regions and areas at which views and information are freely exchanged. In addition, regular meetings are held which are attended by the elected representatives of the staff and representatives of the Staff Union and Group Human Resources Department. Employees of the Company are eligible to participate in the Barclays PLC Sharesave Schemes.

### **2 Disabled persons**

The Company gives every consideration to applications for employment from handicapped or disabled persons who are able to meet the requirements of the job. As far as possible, training, career development and promotion opportunities will be available to such persons.

Where existing employees become disabled the Company makes every effort to continue to employ them.

### **Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership from 1 January 2003, PricewaterhouseCoopers resigned on 11 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP.

On 13 December 1990 an Elective Resolution was passed by the shareholders of the Company pursuant to section 386 of the Companies Act 1985 to dispense with the obligations to re-appoint the Auditors annually. PricewaterhouseCoopers LLP have signified their willingness to continue in office.

## BARCLAYS LIFE ASSURANCE COMPANY LIMITED

### Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on Page 8, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the Auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 9 to 25,

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD

Director  
54 Lombard Street  
London EC3P 3AH

4 March 2003

## **Independent Auditors' Report to the members of Barclays Life Assurance Company Limited**

We have audited the financial statements on pages 10 to 27, which have been prepared on the basis of the accounting policies set out on pages 14 to 16.

### **Respective responsibilities of directors and auditors**

The directors responsibilities for preparing the annual report and the financial statements, in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs at 30 November 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

4 March 2003

**PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 30 NOVEMBER 2002**

**Technical Account – Long Term Business**

		<i>12 months</i>	<i>11 months</i>
		<i>2002</i>	<i>2001</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	469,475	458,948
Outward reinsurance premiums		(17,921)	(14,556)
		<hr/>	<hr/>
		451,554	444,392
Investment income	2	175,705	300,561
Other technical income, net of reinsurance-group undertakings	17	4,286	641,166
Other technical income, net of reinsurance-other		177	682
		<hr/>	<hr/>
		631,722	1,386,801
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
– gross amount		(442,215)	(378,368)
– reinsurers' share		13,374	12,720
		<hr/>	<hr/>
		(428,841)	(365,648)
Change in the provision for claims			
– gross amount		688	(4,018)
– reinsurers' share		938	2,017
		<hr/>	<hr/>
		1,626	(2,001)
		<hr/>	<hr/>
		(427,215)	(367,649)
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
– gross amount		18,284	(103,982)
– reinsurers' share		(15,379)	91,858
		<hr/>	<hr/>
		2,905	(12,124)
Other technical provisions, net of reinsurance			
– technical provisions for linked liabilities		686,462	594,363
		<hr/>	<hr/>
		689,367	582,239
Net operating expenses	3	(80,535)	(160,560)
Investment expenses and charges	2	(43,808)	(3,803)
Other technical expense, net of reinsurance-group undertakings	17	(79,246)	—
Unrealised losses on investments	2	(749,755)	(796,415)
Tax attributable to the long term business	7	(3,245)	(2,558)
		<hr/>	<hr/>
		(956,589)	(963,336)
		<hr/>	<hr/>
<b>Balance on the long term business technical account</b>		<b>(62,715)</b>	<b>638,055</b>
		<hr/> <hr/>	<hr/> <hr/>

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

## Non-Technical Account

		<i>12 months</i>	<i>11 months</i>
		<i>2002</i>	<i>2001</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b>Balance on the long term business technical account</b>		(62,715)	638,055
Tax charge attributable to the balance on the long term business technical account	7	3,245	2,558
Shareholders' pre-tax (loss)/profit from long term business		(59,470)	640,613
Investment Income	2	3,480	2,263
Unrealised gains on investments	2	—	1,601
Unrealised losses on investments	2	(824)	—
Other charges including value adjustments		—	(6)
<b>Profit on ordinary activities before tax</b>		(56,814)	644,471
Tax on ordinary activities	7	(4,043)	(3,698)
<b>(Loss)/Profit for the financial period</b>		(60,857)	640,773
Dividends	8	(700,000)	—
<b>Retained (loss)/profit for the financial period</b>	13	(760,857)	640,773

All the amounts above are in respect of continuing operations.



**BALANCE SHEET  
AS AT 30 NOVEMBER 2002**

**Assets**

	<i>Notes</i>	<i>2002 £000</i>	<i>2001 £000</i>
<b>Investments</b>			
Other financial investments	10	759,638	1,384,827
<b>Assets held to cover linked liabilities</b>	11	4,037,108	4,759,592
<b>Reinsurers' share of technical provisions</b>			
Long term business provision		129,022	144,401
Technical provisions for unit-linked liabilities		32,373	35,251
Claims outstanding		7,648	6,710
		<u>169,043</u>	<u>186,362</u>
<b>Debtors</b>			
Other debtors	17	564,328	672,228
		<u>564,328</u>	<u>672,228</u>
<b>Other assets</b>			
Cash at bank and in hand:			
group undertakings		108,426	40,730
other		6,213	63,880
		<u>114,639</u>	<u>104,610</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		10,899	9,685
		<u>10,899</u>	<u>9,685</u>
<b>Total assets</b>		<u><u>5,655,655</u></u>	<u><u>7,117,304</u></u>

## Liabilities

	<i>Notes</i>	<i>2002</i> <i>£000</i>	<i>2001</i> <i>£000</i>
<b>Capital and reserves</b>			
Called up share capital	12	25,500	25,500
Profit and loss account	13	69,298	830,155
Equity Shareholders' funds	14	94,798	855,655
<b>Technical provisions</b>			
Long term business provision		754,591	772,875
Claims outstanding		25,628	26,316
<b>Technical provisions for linked liabilities</b>	11	4,070,250	4,759,590
<b>Creditors</b>			
Bank overdrafts	16	1,291	21,850
Creditors arising out of reinsurance operations		1,500	1,280
Other creditors: group undertakings	17	671,741	637,430
Other creditors including taxation and social security	18	23,903	40,298
		698,435	700,858
<b>Accruals and deferred income</b>		11,953	2,010
<b>Total liabilities</b>		<u>5,655,655</u>	<u>7,117,304</u>

The financial statements on pages 9 to 25 were approved by the Board of Directors on 4 March 2003 and signed on its behalf by:

R G Dench  
Managing Director

## **ACCOUNTING POLICIES**

### **Basis of presentation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985. The financial statements have been prepared in accordance with applicable accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998.

Compliance with Statement of Standard Accounting Practice ("SSAP") 19 – Accounting for Investment Properties requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the accounting policy note below relating to investments.

The Company's results are consolidated within Barclays PLC which has adopted the provisions of Financial Reporting Standard 1 (Revised 1996), Cash Flow Statements. Accordingly, the Company has elected to utilise the exemption provided by FRS1 and has not provided a Cash Flow Statement.

In accordance with Financial Reporting Standard 8 the company has not disclosed details of transactions with entities that are part of the group or investees of the group qualifying as related parties since 100 per cent of its voting rights are controlled within the group and the company is included as a subsidiary undertaking in the consolidated financial statements of its ultimate parent undertaking, Barclays PLC. The company is controlled by Barclays PLC.

### **Premiums**

Premiums and consideration for annuities are accounted for when due for payment.

### **Claims**

Claims and surrenders are accounted for when notified, maturities on the policy maturity date and regular withdrawals when due.

Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

### **Long term reinsurance contracts**

Long – term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts.

Reinsurance contract with Swiss Re Life & Health Ltd which provides cover for linked liabilities in respect of notional investments in the shares of Barclays PLC are accounted for in reinsurers' share of technical provision and excluded from assets held to cover linked liabilities at market value.

### **Investments**

Listed investments, unlisted investments and properties to which the benefits of policies are linked are valued in accordance with the conditions set out in the relevant policy documents. Other listed securities are included in the balance sheet at their middle market value.

Under the Companies Act 1985 land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

### **Investment Return**

Investment return comprises, Investment income, including dividends, interest, rents, gains and losses on the realisation of investments and related expenses, and movements in unrealised gains and losses.

Dividends are included as investment income on the date that the shares are quoted ex dividend. Interest, rents and expenses are accounted for on an accruals basis.

Policyholder fund investment income and expenses are dealt with through the technical account, whilst shareholder fund investment income and expenses are dealt with through the non-technical account.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost.

Unrealised gains and losses on policyholder fund investments are dealt with through the technical account. Unrealised gains and losses on shareholder fund investments are dealt with through the non-technical account.

### **Long term business provision**

The long term business provision is determined by the Appointed Actuary following his annual investigation of the long term fund, and is calculated initially on a statutory solvency basis to comply with regulatory reporting requirements. The calculation uses a cash flow method for unit-linked policies for determining mortality and expense reserves. For conventional policies, a gross premium valuation method is used.

### **Taxation**

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19, issued in December 2000. The Company has chosen not to apply the option available under FRS 19 of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax on changes in the fair value of investments is recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Different tax rules apply under UK law depending upon whether the business is life insurance or pension business. Tax on the life insurance business is based on investment returns less expenses attributable to that business. Tax on the pension business is based on the shareholders' profits or losses attributable to that business. The shareholders' portion of the long-term business is taxed at the shareholders' rate with the remaining portion taxed at rates applicable to the policyholders.

The balance of the long-term business technical account is net of the total tax attributable to the long-term business. In order to present the profit on long-term insurance activities in the non-technical account on a pre-tax basis, a tax credit attributable to the shareholders' portion of the tax provision for long-term business, calculated at the effective tax rate (where appropriate on a long-term basis) of the underlying business, is added. This shareholder tax add-back is then included in the tax expense on the profit on ordinary activities within the non-technical account. Further details are provided in note 7.

### **Contingent loan**

Loans, together with the interest payable the repayments of which are contingent upon the emergence of margins generated from future premiums or other income are classified and recognised as liabilities. The present value of that part of the future margins, which are expected to finance the repayment, is recognised as an asset in the balance sheet and included in 'other debtors'.

Where the expected future margins will not be sufficient to cover the contingent loan repayments and the deferred acquisition costs, the deferred acquisition costs are reduced accordingly.

**Retirement benefits**

The Company is a contributor to the Barclays Bank PLC Pension Scheme which comprises a funded defined benefit scheme and a money purchase scheme for new joiners since July 1997. The fund is valued every three years by a professional qualified independent actuary, using the projected unit method. Costs are not determined for each individual company and hence contributions are charged in the Long Term Business Technical Account in the period in which they become payable.

**Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Transactions are translated into sterling at exchange rates ruling at the date of the transaction and exchange differences are dealt with in that part of the profit and loss account in which the underlying transaction is reported.

**Change in accounting policies**

The provisions of FRS19 "Deferred Tax" have been adopted for the first time in these financial statements. As a consequence, full provision is required for deferred tax on tax assets and liabilities arising on timing differences. The change in the accounting policy has had no effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental Analysis

(1) Gross premiums written

	<i>Regular premiums</i>		<i>Single premiums</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-participating:				
Life	53,046	57,484	8,057	9,189
Annuity	—	—	48,480	38,963
Pensions	1,853	1,917	—	—
	<u>54,899</u>	<u>59,401</u>	<u>56,537</u>	<u>48,152</u>
Linked:				
Life	125,562	132,399	—	—
Pensions	112,695	138,258	91,896	52,602
Permanent health	27,886	28,136	—	—
	<u>266,143</u>	<u>298,793</u>	<u>91,896</u>	<u>52,602</u>
	<u>321,042</u>	<u>358,194</u>	<u>148,433</u>	<u>100,754</u>
Comprising: Individual business	321,042	357,638	148,433	100,666
Group contracts	—	556	—	88
	<u>321,042</u>	<u>358,194</u>	<u>148,433</u>	<u>100,754</u>

(2) Gross new business premiums

	<i>Regular premiums</i>		<i>Single premiums</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Non-participating:				
Life	5	90	8,057	9,189
Annuity	—	—	48,480	38,963
Pensions	—	—	—	—
	<u>5</u>	<u>90</u>	<u>56,537</u>	<u>48,152</u>
Linked:				
Life	1,325	16,058	—	—
Pensions	3,807	10,400	3,604	13,820
Permanent health	91	6,510	—	—
	<u>5,223</u>	<u>32,968</u>	<u>3,604</u>	<u>13,820</u>
	<u>5,228</u>	<u>33,058</u>	<u>60,141</u>	<u>61,972</u>
Comprising: Individual business	5,228	32,046	60,141	61,884
Group contracts	—	1,012	—	88
	<u>5,228</u>	<u>33,058</u>	<u>60,141</u>	<u>76,510</u>

## 1. Segmented Analysis (Continued)

In classifying new business premiums the following basis of recognition is adopted:-

- recurrent single premium contracts, including BRC premiums arisen from redress on certain pensions products, are included in new business, single premiums.
- pensions vested into annuity contracts during the period are included as new annuity single premium business at the annuity purchase price.
- increments under existing group pension schemes are classified as new single business premiums.
- where regular premiums are received other than annually the reported regular new business premiums are on an annualised basis.

### (3) Assets attributable to the long term business fund

Of the total amount of assets shown on page 11, £4,907,603,000 (2001: £5,603,986,000) was attributable to the long term business fund.

### (4) Geographical Analysis

All business is conducted in the UK.

### (5) Reinsurance balance

The reinsurance balance amounted to a debit to the long term business technical account at 30 November 2002 of £21,866,000 (2001 credit: £93,291,000)

## 2. Investment Return

### Long term business technical account

	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Investment Income:		
Income from land and buildings	10,353	9,193
Group interest income	4,184	2,184
Income from other investments – listed	141,975	131,729
– other	19,193	23,070
Net gains on the realisation of investments	—	134,385
	<hr/>	<hr/>
	175,705	300,561
Investment expenses and charges:		
Net loss on the realisation of investments	(6,045)	—
Investment management expenses, including interest	(3,386)	(3,803)
Group interest on loan	(34,377)	—
	<hr/>	<hr/>
	(43,808)	(3,803)
Net unrealised losses on investments	(749,755)	(796,415)
	<hr/>	<hr/>
Net investment return included in the long term business technical Account	(617,858)	(499,657)
	<hr/> <hr/>	<hr/> <hr/>

## Non – technical account

	2002 £000	2001 £000
Investment Income:		
Income from other investments – listed	—	53
– other	1,956	2,024
Net gains on the realisation of investments	1,524	186
	<u>3,480</u>	<u>2,263</u>
Net unrealised (loss)/gains on investments	(824)	1,601
Net investment return included in the non-technical account	<u>2,656</u>	<u>3,864</u>
Total investment return	<u>(615,202)</u>	<u>(495,793)</u>

## 3. Net Operating Expenses

	2002 £000	2001 £000
Acquisition costs	—	45,733
Change in deferred acquisition costs	—	60,680
Administrative expenses	80,535	54,147
	<u>80,535</u>	<u>160,560</u>

The administrative expenses are net of £2,115,000 (2001: £17,856,000) of recharges to other group undertakings in respect of administrative expenses incurred on their behalf and recharged to them.

## 4. Auditors' Remuneration

The Company audit fees and expenses amounted to £168,906 (2001: £117,500). Fees paid to the auditors for non audit services were £539,369 (2001: £141,352).

## 5. Staff Costs

Barclays Bank Plc employs all of the company's staff. The amounts shown below are those staff costs which the company reimbursed to Barclays Bank Plc.

	2002 £000	2001 £000
Wages and salaries	13,334	41,267
Social Security costs	817	3,601
Other pensions costs	88	597
	<u>14,239</u>	<u>45,465</u>

The average number of employees during the period for which the company reimbursed Barclays Bank PLC as follows:

	2002 No.	2001 No.
Sales and Marketing	—	672
Administration	352	514
	<u>352</u>	<u>1,186</u>

Administration staff numbers have reduced due to the transfer of operational administration to Liberata plc.



## 6 Directors' Emoluments

The aggregate emoluments of the directors including pension scheme contributions were as follows:

	2002 £000	2001 £000
For services as directors and other emoluments		
Paid by the company	220	443
	<u>220</u>	<u>443</u>
	<u><u>220</u></u>	<u><u>443</u></u>

The remuneration of the highest paid director was £219,860, with accrued pension of £19,575 per annum for the period 30 November 2002. One director was accruing retirement benefits under defined benefit pension schemes (2001: seven) and no director was accruing retirement benefits under a money purchase scheme (2001: nil). One director exercised option under the Barclays PLC Sharesave scheme during 2002.

There were no loans during the period to Directors or Officers of the Company or other transactions, arrangements and agreements which require disclosure in accordance with Schedule 6 of the Companies Act 1985 or FRS 8 'Related Party Transactions'.

## 7. Tax

Profit and loss account tax (credit) charge

The tax expense for certain long-term business operations is attributable to shareholders and policyholders. The shareholders' portion of tax is determined using the long-term effective tax rate of the underlying business applied to the profits transferred to the non-technical account. A summary of the tax expense attributable to the long-term business technical account and shareholders' profits in the non-technical account is shown below:

	<i>Long-term business technical account</i>		<i>Non technical account</i>	
	2002 £000	2001 £000	2002 £000	2001 £000
<b>(a) Between current and deferred tax expense (benefit)</b>				
Current: UK	1,938	14,459	798	1,140
Foreign	1,307	1,202		
	<u>3,245</u>	<u>15,661</u>	<u>798</u>	<u>1,140</u>
Deferred: UK	—	(13,103)	—	—
	<u>—</u>	<u>(13,103)</u>	<u>—</u>	<u>—</u>
Total	<u><u>3,245</u></u>	<u><u>2,558</u></u>	<u><u>798</u></u>	<u><u>1,140</u></u>
<b>(b) By category of tax expense (benefit)</b>				
UK Corporation Tax	1,938	14,459	798	1,140
Overseas Taxation	1,307	1,202	—	—
	<u>3,245</u>	<u>15,661</u>	<u>798</u>	<u>1,140</u>
Deferred Tax	—	(13,103)	—	—
	<u>—</u>	<u>2,558</u>	<u>—</u>	<u>—</u>
Shareholder tax attributable to balance on the long – term business technical account	—	—	3,245	2,558
	<u><u>3,245</u></u>	<u><u>2,558</u></u>	<u><u>4,043</u></u>	<u><u>3,698</u></u>

**(c) By source of profit (losses)**

	2002 £000	2001 £000
Tax on operating profit (based on long-term investment returns)		
Long term business:		
General business and shareholders	3,245	2,558
Tax on investment returns	798	1,140
	—	—
Tax on profit on ordinary activities	<u>4,043</u>	<u>3,698</u>

**(d) Factors affecting tax charge for period**

The tax assessed in the period in the period is lower than the standard rate of corporation tax in the UK and the differences are explained below.

The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits will be taxed.

(Loss)/Profit on ordinary activities before tax	<u>(56,814)</u>	<u>644,471</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(17,044)	193,341
Effects of:		
Adjusted taxable profit	2,003	14,595
Non taxable contingent loan receipt/payment	18,485	(193,500)
Prior year adjustment	(762)	1,159
Overseas Tax	1,307	1,202
Non taxable deferred acquisition costs credit	—	(13,103)
Other differences	54	4
Current tax charge for the period	<u>4,043</u>	<u>3,698</u>

Comparative figures for 2001 have not been restated for the implementation of FRS 19 on deferred tax as there are no material differences.

**Deferred Tax**

The components of the net deferred tax liability are as follows. The balances have not been discounted.

	<i>Liability provided (Asset recognised)</i>	
	2002 £000	2001 £000
(a) By category of timing difference		
Deferred acquisition costs	—	(13,103)
	<u>—</u>	<u>(13,103)</u>
(b) By fund		
Long term business technical account	—	(13,103)
	<u>—</u>	<u>(13,103)</u>
(c) Reconciliation of movements in deferred tax		
Deferred tax liability at beginning of year	—	13,103
Deferred tax credited in profit and loss account for the year	—	(13,103)
	<u>—</u>	<u>—</u>

## 8. Dividend

	2002 £'000	2001 £'000
Dividends on ordinary shares:		
Final paid 2.75p (2001: 0p) per £1 share	700,000	—

## 9. Pension Commitments

The Barclays Group provides pension benefits to employees in the UK through the Barclays Bank UK Retirement Fund (UKRF), which contains a defined benefit section. The UKRF is a group scheme, details of which are given in the financial statements of Barclays Bank PLC. Contributions to the group scheme amounted to £nil (2001: £597,000) and are based on pension costs across the Barclays Group as a whole. Since the company is unable to identify its share of the underlying assets and liabilities of the UKRF, under Financial Reporting Standard 17 (FRS 17), contributions to the scheme will be accounted for as if they were contributions to a defined contribution scheme. As at 31 December 2002, the UKRF had a deficit of £1,300m (2001 surplus of £377m) in the financial statements of Barclays Bank PLC. However, as a result of the continuing funding surplus in the UKRF, the current contribution holiday is expected to continue until 2004.

## 10. Other Financial Investments

	<i>Carrying value</i>		<i>Cost</i>	
	2002 £000	2001 £000	2002 £000	2001 £000
Shares and other variable yield securities and units in unit trusts	149,272	762,493	143,877	757,399
Debt securities and other fixed income Securities – listed on a recognised stock exchange Attributable to the long term business	590,343	569,306	559,599	517,692
	739,615	1,331,799	703,476	1,275,091
Deposits with credit institutions	20,023	53,028	20,000	53,000
	759,638	1,384,827	723,476	1,328,091

## 11. Assets Held to Cover Linked Liabilities

	<i>Current value</i>		<i>Cost</i>	
	2002 £000	2001 £000	2002 £000	2001 £000
Assets held to cover linked liabilities	4,037,108	4,759,592	4,177,321	4,164,578

Linked assets differ from linked liabilities as detailed below:

	<i>Current value</i>	
	2002 £000	2001 £000
Linked Assets	4,037,108	4,759,592
CGT Assets	11,496	15,595
Other liabilities	(10,728)	(50,854)
Reinsured Linked Liability	32,373	35,257
Linked liabilities	4,070,249	4,759,590

## 12. Called up Share Capital

	2002 £000	2001 £000
Authorised		
10,500,000 ordinary shares of £1 each	10,500	10,500
29,500,000 ordinary redeemable shares of £1 each	29,500	29,500
Total	<u>40,000</u>	<u>40,000</u>
Allotted and fully paid		
10,500,000 ordinary shares of £1 each	10,500	10,500
15,000,000 ordinary redeemable shares of £1 each	15,000	15,000
Total	<u>25,500</u>	<u>25,500</u>

The rights attaching to the respective classes of share are as follows:

### *(i) Income*

The profits of the Company available for distribution and resolved by the Directors to be distributed from time to time shall be applied between the two classes of shares as the Directors shall see fit.

### *(ii) Capital*

On a return on assets on liquidation or otherwise, other than on the redemption of shares of any class or the purchase by the Company of its own shares, the assets of the Company remaining after the payment of its liabilities shall be applied.

First, in repaying to the holders of the Ordinary Shares the amounts paid up or credited as paid up (including any share premium) on the Ordinary Shares held by them respectively.

Second, the balance of such assets shall belong to and be distributed among the holders of the Ordinary Redeemable Shares in proportion to the amounts paid up on the Ordinary Redeemable Shares held by them respectively.

### *(iii) Voting and General Meetings*

The holders of the Ordinary Redeemable Shares shall have the right to receive notice of and to attend General Meetings of the Company but shall not be entitled to vote thereat unless a resolution is to be proposed for the winding up of the Company.

### *(iv) Redemption*

The Company shall have the option of redeeming all or any of the Ordinary Redeemable Shares at any time by giving not less than seven days' notice, in writing, to the holders of such Ordinary Redeemable Shares. There shall be paid on each Ordinary Redeemable Share so redeemed the amount paid up thereon or credited as paid up.

## 13. Profit and Loss Account

	2002 £000	2001 £000
Balance at 1 December	830,155	189,382
(Loss)/profit for the financial period	(60,857)	640,773
Dividend	(700,000)	—
Balance at 30 November	<u>69,298</u>	<u>830,155</u>

#### 14. Reconciliation of Movements in Shareholders' Funds

	2002 £000	2001 £000
Retained (loss)/profit for the period	(759,757)	640,773
Policyholders protection reserve moved to technical provision	(1,100)	—
Opening shareholders' funds	855,655	214,882
Closing shareholders' funds	<u>94,798</u>	<u>855,655</u>

#### 15. Long Term Business Provision

(i) The long-term business provision has been calculated using a cash flow method for unit-linked policies and the gross premium method for conventional policies

(ii) The principal assumptions underlying the calculation, for conventional business, were as follows:

<i>Class of Business</i>	<i>2002 Mortality</i>	<i>2001 Mortality</i>	<i>2002 Interest Rate %</i>	<i>2001 Interest Rate %</i>
<b>LIFE</b>				
Term Assurances	AM/AF80 Ult*	AM/AF80 Ult*	3.00	3.00
Guaranteed Growth Bond				
Tranches 1-9 (sold 1997/98)	A67/70 Ult	A67/70 Ult	2.40	2.40
Tranche 10 (sold 2002)	A67/70 Ult	A67/70 Ult	3.20	N/A
<b>PENSION</b>				
Term Assurances	AM/AF80 Ult*	AM/AF80 Ult*	3.75	3.75
Annuities in Payment	80%RMV92/ 80%RFV92	100%PFA92/ 100%PMA92/	4.35	4.05

\* With adjustment for AIDS

(iii) For linked business, the unit liability was based on the value of units at bid price. The principal assumptions underlying the calculation of the non-unit liability were as follows:

#### ECONOMIC ASSUMPTIONS

<i>Class of Business</i>	<i>2002</i>			<i>2001</i>		
	<i>Interest Rate %</i>	<i>Inflation Rate %</i>	<i>Unit Price Growth Rate before charges %</i>	<i>Interest Rate %</i>	<i>Inflation Rate %</i>	<i>Unit Price Growth Rate before charges %</i>
Life	3.20	5.50	5.75	3.20	5.50	6.25
Pensions	4.00	5.50	6.50	4.00	5.50	7.00

#### OTHER ASSUMPTIONS

<i>Class of Business</i>	<i>2002</i>			<i>2001</i>		
	<i>Mortality Table</i>	<i>Expenses – Regular (£)</i>	<i>Expenses – Single (£)</i>	<i>Mortality Table</i>	<i>Expenses – Regular (£)</i>	<i>Expenses – Single (£)</i>
Life	A67/ 70(5)*	25.50	15.50	A67/ 70(5)*	25.50	15.50
Pensions	A67/ 70(5)*	22.00	15.50	A67/ 70(5)*	23.50	13.50

\*With adjustment for AIDS

Permanent health business claims in payment were valued using a disability termination table – (CMIR12 adjusted for the duration of claim).

(iv) Deferred Tax

Future anticipated tax cash flows are included in the actuarial calculation and are discounted at the interest rate applicable to the appropriate business.

## 16. Borrowings

The bank overdrafts of £1,291,000 (2001: £21,850,000) principally relate to the company's internal linked fund.

## 17. Contingent Loan

Other creditors; group undertakings' includes an amount of £670,130,000 (2001 £635,753,000) representing the company's liability arising from a contingent loan agreement entered into with Barclays Bank PLC. The terms of the loan and interest thereon, are that the repayment is contingent on the emergence of margins generated from future premiums or other income, that is, on sufficient surplus being available to meet the service and repayment of the loan.

The present value of that part of the future margins, which are expected to finance the repayment of the loan of £556,506,000 (2001 £635,753,000), has been recognised as an asset in the balance sheet and included in 'other debtors'. This resulted in a £79,246,000 of expense being recognised as 'other technical expense, net of reinsurance group undertakings' in the Technical Account.

The loan bears interest at LIBOR plus 1.25%, and subject to the emergence of surplus is expected to be repaid by 2017. The first scheduled repayment is due 45 days after the end of the 2002 accounting period.

There is a remote possibility that the basis of taxation of the loan and its repayment will be successfully challenged by the taxation authorities.

## 18. Other Creditors including taxation and social security

	2002 £000	2001 £000
Taxation	2,772	5,467
Other creditors	21,131	34,831
	<u>23,903</u>	<u>40,298</u>

## 19. Legal and General Alliance

On 16th January 2001 Barclays Bank PLC and Legal and General Group PLC formed a strategic alliance under which Barclays Bank would, subject to regulatory approval, sell Legal and General branded life and pension products through its UK distribution network. As a result Barclays Life ceased to seek new customers through Barclays Bank retail outlets, from 1 August 2001. Existing customers of Barclays Life will continue to be able to make contributions to their Barclays Life policies which will continue to be managed on their behalf.

## 20. Pension Transfers, Opt-Outs and Endowment

On 25 October 1994 the Securities and Investments Board ('SIB') published a report entitled 'Pension Transfers and Opt-Outs, A Review of Past Business'. The report gave guidance to the life assurance industry regulators on securing redress to policyholders who have been mis-sold personal pensions since April 1988.

In accordance with the FSA guidance the Company is in the process of reviewing its past pension business to identify the policyholders who may have been disadvantaged as a result of receiving inappropriate advice. The company has identified those most likely to be at risk within the terms of the FSA guidance and it is in the process of more detailed investigations to review those cases individually.

In May 2000 the FSA published a document entitled "FSAVC Review Model Guidance" requiring life insurance companies to review and redress customers who purchased an FSAVC contract and may have been mis-sold.

As a result of the work carried out to date the Company has provided on a stringent actuarial basis, within the mathematical reserves, for the cost of completing the investigation and providing redress to policyholders who may have been disadvantaged. Included within the mathematical reserves is an amount to meet the cost of the remaining stages of the review based on the company's understanding of the task anticipated. Whilst the eventual liability which may arise as a result of this review is subject to a degree of uncertainty, in the opinion of the directors, the provision made at 30 November 2002 is adequate, based on information currently available.

The Company has made provisions for the cost of redress payment to policyholders in respect of endowment mortgage policies. This provision allows for actual cases received but not settled as at 30 November 2002 and the anticipated future complaint cases for the forthcoming year. After that time such complaints are assumed to revert to their previous levels and any redress that is due would be met out of the normal budget. The eventual liability for endowment mortgages is subject to a degree of uncertainty but in the opinion of the directors is adequate based on information currently available.

## **21. Contingent Liabilities**

There is a contingent liability in respect of levies to the Investors Compensation Scheme ('ICS'). The ICS will meet the costs of compensation to investors who have mis-sold personal pensions after receiving inappropriate advice from independent financial advisers who are now unable to meet the costs. The amount of such levies and the timing of them is not capable of estimation at this time.

## **22. Related Party Transactions**

During the period, the long term business funds of the company have invested in a number of unit trusts managed by Barclays Global Investor Limited a group company. As at 30 November 2002, the value of the units held by the long term business funds was £172m (2001: £252m) in Barclays Global Investor Limited and £0m (2001: £359m) in Barclays Funds Limited.

## **23. Ultimate Parent Company**

The parent company of the smallest group that presents group accounts is Barclays Bank PLC. The ultimate holding company is Barclays PLC and copies of the group accounts of Barclays PLC and Barclays Bank PLC may be obtained from Group Secretary's Office, Barclays PLC, 54 Lombard Street, London, EC3P 3AH. Both companies are incorporated in Great Britain and registered in England and Wales.

## APPENDIX 5 – BASE CASE AND SENSITIVITY ANALYSIS TABLES

The following table sets out the Base Case for this Offering Circular projected for the period to the Final Maturity of the Notes.

### The Base Case

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Base Case Amortisation Profile<sup>4</sup></i>
2003	915	124	11	287
2004	868	100	18	205
2005	817	90	13	128
2006	773	84	9	53
2007	733	80	3	0
2008	694	72	0	0
2009	662	70	0	0
2010	629	67	0	0
2011	598	64	0	0
2012	567	61	0	0
2013 onward <sup>5</sup>	539	835	0	0

The Base Case has been calculated on the basis of data as at 30 November 2002 and the Base Case Assumptions (see *Relevant Regulatory Surplus – Base Case Assumptions used in projecting Relevant Regulatory Surplus*).

- <sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the "Financing Rate"). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.
- <sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Base Case Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.
- <sup>3</sup> Financing Costs are the amount projected under the Base Case Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.
- <sup>4</sup> The Base Case Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.
- <sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.



## Scenario 1 Higher mortality and morbidity rates

This scenario is based upon the Base Case Assumptions except that experienced mortality and morbidity rates are assumed to be 25 per cent. higher for all types of policy (other than annuities) than the mortality and morbidity rates projected in the Base Case Assumptions (the “**Scenario 1 Assumptions**”). The statutory reserving basis has been strengthened where necessary to maintain adequate prudential margins over the experience basis.

Note that for annuity in payment business the surplus is adversely affected by a decrease rather than an increase in mortality rates.

### Scenario 1 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 1 Amortisation Profile<sup>4</sup></i>
2003	849	97	11	314
2004	826	93	20	241
2005	779	83	15	173
2006	740	77	11	107
2007	705	74	7	40
2008	670	72	3	0
2009	637	69	0	0
2010	603	66	0	0
2011	571	61	0	0
2012	542	57	0	0
2013 onward <sup>5</sup>	516	802	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 1 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “**Financing Rate**”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 1 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 1 Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 1 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## Scenario 2 Higher early termination rates

This scenario is based upon the Base Case Assumptions except that early termination rates (including retirement and paid-up rates) for all types of policy (excluding annuities) are assumed to be 25 per cent. higher than the early termination (including retirement and paid-up) rates projected in the Base Case Assumptions (the “Scenario 2 Assumptions”).

### Scenario 2 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 2 Amortisation Profile<sup>4</sup></i>
2003	867	125	11	286
2004	815	97	18	207
2005	763	85	13	135
2006	721	78	9	66
2007	684	74	4	0
2008	648	71	0	0
2009	613	68	0	0
2010	579	61	0	0
2011	551	58	0	0
2012	524	55	0	0
2013 onward <sup>5</sup>	499	778	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 2 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “Financing Rate”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 2 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 2 Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 2 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

### Scenario 3 Lower overall investment returns

This scenario is based upon the Base Case Assumptions except that overall rates of pre-tax investment return are assumed to be 100 basis points per annum lower than the projected rates of investment return throughout the term of the transaction (the “Scenario 3 Assumptions”). The lower return has also been reflected in the non-unit reserve calculations for unit-linked business.

#### Scenario 3 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 3 Amortisation Profile<sup>4</sup></i>
2003	865	110	11	301
2004	830	99	19	221
2005	777	88	14	147
2006	732	82	10	75
2007	692	78	5	2
2008	652	75	0	0
2009	614	72	0	0
2010	576	63	0	0
2011	545	61	0	0
2012	515	57	0	0
2013 onward <sup>5</sup>	487	748	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 3 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “Financing Rate”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 3 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 3 Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 3 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

#### Scenario 4 Immediate fall in market value of investments

This scenario is based upon the Base Case Assumptions except that there is assumed to be a fall of 20 per cent. in the capital values of equity and property assets over the first year (the “**Scenario 4 Assumptions**”). The 20 per cent. fall has also been reflected in the non-unit reserve calculations for unit-linked business.

#### Scenario 4 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amounts<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 4 Amortisation Profile<sup>4</sup></i>
2003	835	97	11	314
2004	810	93	20	241
2005	763	83	16	174
2006	723	79	11	106
2007	685	76	8	38
2008	648	72	2	0
2009	613	69	0	0
2010	579	66	0	0
2011	545	63	0	0
2012	513	58	0	0
2013 onward <sup>5</sup>	484	748	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 4 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “**Financing Rate**”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 4 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 4 Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 4 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## Scenario 5 Higher expense inflation

This scenario is based upon the Base Case Assumptions except that the annual rate of inflation in administration expenses is 100 basis points higher. The Base Case Assumption for the Retail Prices Index inflation remains the same (the “Scenario 5 Assumptions”). The 100 basis point increase has also been reflected in the reserving calculations for the BLAC business.

### Scenario 5 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 5 Amortisation Profile<sup>4</sup></i>
2003	901	93	11	318
2004	887	103	21	236
2005	834	92	15	159
2006	788	86	11	84
2007	747	82	5	7
2008	707	79	0	0
2009	668	71	0	0
2010	634	68	0	0
2011	601	65	0	0
2012	570	62	0	0
2013 onward <sup>5</sup>	540	835	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 5 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “Financing Rate”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 5 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 5 Assumptions to be the aggregate of the amount of the Swap Fixed Amounts and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 5 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## Scenario 6 Higher mortality and morbidity rates, higher early termination rates and lower overall investment returns

This scenario is based upon the Base Case Assumptions except that the mortality and morbidity rates, early termination rates and overall investment returns are those set out in, respectively, Scenarios 1, 2 and 3 above (the “Scenario 6 Assumptions”).

### Scenario 6 Projection

<i>Calculation Period ending 30 November all figures in £,000,000</i>	<i>Aggregate Relevant Regulatory Surplus<sup>1</sup></i>	<i>Relevant Regulatory Surplus Amount<sup>2</sup></i>	<i>Financing Costs<sup>3</sup></i>	<i>Scenario 6 Amortisation Profile<sup>4</sup></i>
2003	758	85	11	326
2004	739	90	21	257
2005	690	78	16	195
2006	650	71	12	136
2007	616	68	9	77
2008	583	64	6	19
2009	551	61	1	0
2010	521	58	0	0
2011	493	55	0	0
2012	465	49	0	0
2013 onward <sup>5</sup>	442	686	0	0

<sup>1</sup> Aggregate Relevant Regulatory Surplus is the amount projected under the Scenario 6 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period discounted at a rate of 6.325 per cent. per annum being equal to the aggregate of (i) the fixed rate of the Swap plus (ii) the premium payable to Ambac (expressed as a rate per cent. per annum) (the “Financing Rate”). The 2003 value, payable in April 2004, is discounted to 31 October 2003. Values from 2004 onwards are discounted to 15 April of the following year: for instance, the 2004 Aggregate Relevant Regulatory Surplus is equal to Relevant Regulatory Surplus Amounts from 2005 onwards discounted to 15 April 2005 plus the 2004 Relevant Regulatory Surplus Amount.

<sup>2</sup> The Relevant Regulatory Surplus Amount is the amount projected under the Scenario 6 Assumptions to be the Relevant Regulatory Surplus Amount in respect of each future Calculation Period on the basis such period ends on 30 November in each year.

<sup>3</sup> Financing Costs are the amount projected under the Scenario 6 Assumptions to be the aggregate of the amount of the Swap Fixed Amount and the premium due to Ambac payable on the April Interest Payment Date immediately following each future Calculation Period.

<sup>4</sup> The Scenario 6 Amortisation Profile is the then projected Principal Amount Outstanding of the Notes less the Relevant Regulatory Surplus Amount after deducting from the Relevant Regulatory Surplus Amount the aggregate of the Financing Costs and an amount reflecting expected costs ranking senior to Note interest.

<sup>5</sup> The table excludes any Relevant Regulatory Surplus Amounts emerging after the Calculation Period ending in November 2031.

## APPENDIX 6 – POLICY DESCRIPTIONS

### UNIT-LINKED BUSINESS (LIFE PRODUCTS AND PENSION PRODUCTS)

Unit-linked business falls into two categories – unit-linked life business and unit-linked pensions business.

- unit-linked life business: This can be subdivided into the following sub-categories:
  - Regular Premium Mortgage Related Endowment Policies, consisting of: Barclays Endowment Plan (Series I, II and III); Barclays Endowment Plan Plus (Series II and III); Supplementary Endowment Plan; Mortgage Endowment Plan; Woolwich Endowment Plan;
  - Regular Premium Savings Plans, consisting of: Assured Protection Plan; Assured Savings Plan; Barclaybond Assured Savings Plan, Unicorn Assured Savings Plan; Barclays Unicorn Lifelong Plan, Barclays Unicorn Linked Building Society Plan, Flexible Savings and Protection Plan; Flexible Savings Plan; Maximum Investment Plan.
  - Regular Premium Protection Plans, consisting of: Lifestages; Lifestages Plus; Critical Illness Benefit; Maximum Cover Plan; Income Protection Plan; Family Income Protection Plan; Woolwich Unit-Linked Term Assurance;
  - Single Premium Investment Bonds; consisting of: Equity Bond; BarclayBond (Series I, II and III); Barclays Investment Bond;
- unit-linked pensions business: Personal Pension Plan (Series I, II, III, IV and V); Barclays Retirement Account (Series I, II and III); Executive Pension Plan (Series I and II); Barclays Executive Retirement Account; Additional Voluntary Contribution Series (I, II and III); Personal Pension – DSS Contributions; Free Standing Additional Voluntary Contribution; Woolwich Pension Plan.

#### Regular Premium Mortgage Related Endowment Policies

The regular premium mortgage related policies are for fixed terms (usually between 10 and 30 years), although some policy types have options to alter the term.

These policies are usually taken out in conjunction with an interest-only mortgage with the aim of repaying (all or a specified proportion of) the mortgage. The policies provide a specified lump sum on death (or, if included, upon the earlier occurrence of a critical illness) and are targeted to provide, on survival to the scheduled maturity date, an amount at least equal to the sum assured. However, since the benefit payable at maturity is the value of the unit fund there is no guarantee that the payout will be sufficient to repay the mortgage. Premiums are reviewable and no guarantee of investment return is given.

With some of the regular premium mortgage related endowment policies, the customer had the option at the outset to pay a higher premium and include additional benefits such as waiver of premium, critical illness cover and permanent health insurance.

In addition, some of these policies include a guaranteed insurability option, where upon the occurrence of certain limited events (such as an increase in mortgage before a certain age) the customer could increase the sum assured (subject to a maximum level of cover), either by altering the existing policy or by effecting a new policy, without needing to provide further evidence of good health. Any increase in the sum assured will result in an increase in premium.

Except for the Supplementary Endowment Plan these are “qualifying” policies, so no further tax is paid by the policyholder on the maturity or surrender proceeds, once the premiums have been paid for the lesser of 10 years or 75% of the term. Most policies were sold with level premiums throughout although with some policy types a “low-start” option was also offered – under this option the premium increases on each anniversary for a specified period in accordance with a specified schedule. In the event of death or, where critical illness cover is also included, upon the occurrence of a specified critical illness, before the maturity date, the higher of the guaranteed death benefit and the cash value of the units allocated is payable.

Charges will be deducted in a number of ways depending on the policy terms and conditions for the various different policy types including, but not limited to, an “initial” period of nil/reduced allocation, a monthly policy fee, a bid/offer spread (generally of 5%) and an annual management

charge (generally of 1% per annum). In addition, specific charges are made by unit deduction to cover the cost of providing life cover and, where included, critical illness cover and sickness benefits.

### **Regular Premium Savings Policies**

The regular premium savings policies are usually fixed term savings contracts with minimal levels of life cover – usually just sufficient to satisfy the “qualifying rules” in order that no further tax is paid by the policyholder on maturity or surrender proceeds, once premiums have been paid for the lesser of 10 years or 75% of the term.

Only three small tranches of old unit-linked policies offer guarantees on maturity benefits. The Barclaybond Assured Savings Plan, the Unicorn Assured Savings Plan and the Barclays Unicorn Linked Building Society Plan, policies written between 1965 and 1975, offered a small guarantee which consisted of a guarantee at maturity of a return of premiums. At June 2003 there were 4,574 such policies in-force with a bid value of units of £41.4m and a guaranteed maturity benefit of £13.7 million for which reserves considered appropriate are held.

Charges are deducted through combinations of initial or capital units (which attract an additional annual management charge of 3.5 per cent.), reduced allocation periods, bid-offer spread (generally 5%), policy fee and annual management charge (generally 1%). Where policy fees are levied these are deducted before premiums are allocated.

With some policies, customers had the option at the outset to pay an additional premium to obtain additional death benefits (e.g. double guaranteed cover, family income benefit, term assurance) or sickness benefits (e.g. waiver of premium).

### **Regular Premium Protection Policies**

The regular premium protection policies are usually non-qualifying whole of life or term policies with the main purpose of providing life cover, critical illness cover or permanent health insurance. Lifestages policies and Lifestages Plus policies are whole of life policies. Lifestages policies pay a sum assured on death and have been written on single life, joint life first death and joint life second death basis. Lifestages Plus policies pay a sum assured on the earlier of death or the occurrence of a critical illness and have been on a single life or joint life first event basis. Both Lifestages policies and Lifestages Plus policies allow the policyholder to select the sum assured of their choice within specified limits. The Maximum Cover Plan is a qualifying whole of life policy providing life cover on a single life, a joint life first death and a joint life second death basis. Critical Illness Benefit provides critical illness cover only, whilst the Income Protection Plan and the Family Income Protection Plan provide permanent health insurance benefits. Woolwich Unit-Linked Term Assurance pays the sum assured on death before the expiry date. All of these policies operate in a similar way in that each premium nominally purchases units and benefits are then charged for by unit deduction – the value of any residual units will be available on surrender or expiry/maturity (as applicable).

Charges are taken via various methods including, but not limited to, an “initial” period of nil/reduced allocation, a monthly policy fee, a bid/offer spread (generally of 5%) and an annual management charge (generally of 1% per annum). In addition, specific charges are made by unit deduction to cover the cost of providing, where included, life cover, critical illness cover, permanent health insurance and waiver of premiums.

Some policy types also offer an indexation option – on each anniversary, usually prior to age 60, the sum assured will automatically be increased by either the retail price index or a fixed rate of 5% or 10%. In order to support this the premium will also be increased at a similar rate or faster.

In addition some of these policies include a guaranteed insurability option where, on certain events (such as marriage or birth/adoption of a child) the customer could increase the sum assured (subject to a maximum level of cover), by effecting a new policy, without needing to provide further evidence of good health.

These policies are reviewed on a regular basis to ensure that the value of the units and future premiums will be able to maintain the selected sum assured and any additional benefits included until at least the next review. If the review shows that the premium is insufficient then either the benefits will need to be reduced or the premium should be increased. The dates of policy reviews vary across different products. For example, the first review for Lifestages policies is generally



scheduled for the 10th anniversary and every 5 years thereafter until the policyholder reaches 70 from which date reviews are annual. In addition most contracts allow a review at any time provided there is sufficient evidence that charges need to be increased.

Lifestages and Lifestages Plus policy terms allow the policyholder to alter the selected sum assured at any policy anniversary, within certain limits as specified by the office, subject to the customer demonstrating ongoing good health. Where the sum assured is increased a charge is deducted from units.

### **Single Premium Investment Bonds**

Single premium investment bonds are single premium whole of life contracts. For Barclays Investment Bonds, additional premiums can also be paid. Single premium investment bonds offer a death benefit of a multiple of the bid value of units or, in certain circumstances the greater of a multiple of the bid value of units and a specified percentage of the initial premium.

Charges are levied mainly through the annual management charge incorporated in the unit price although, to the extent that any additional premiums are received, charges will also be levied through the bid/offer spread.

### **Unit-linked Pensions Business**

Personal Pension (Series 4 and 5), the Barclays Retirement Account (Series 1, 2 and 3) and the Woolwich Pension Plan are used by both the self-employed and non-pensionable employees in order to fund for their retirement, usually based on a retirement age between 50 and 75. Regular premiums and/or single premiums can be paid. Contributions to pensions policies in the UK are eligible for tax relief at the highest marginal rate (within certain Inland Revenue defined limits). Prior to age 50 access to the funds is usually only given on death or retirement due to severe ill-health. However customers are free to transfer their funds to another provider at any time. From age 50 policyholders can elect to take benefits even if they haven't actually retired or can defer benefits (although benefits must be taken by age 75) past their actual retirement. A proportion of the fund, up to 25%, can be used to provide a tax-free lump sum, whilst the balance must be used to provide an income for life usually by purchasing an annuity either with Barclays or with any other insurance company (the "open market option"). On death prior to vesting, the bid value of the allocated units is paid.

Personal Pension (Series 1, 2 and 3) are used by both the self-employed and non-pensionable employees in order to fund for their retirement, usually based on a retirement age between 60 and 75. A proportion of the fund, up to 33%, can be used to provide an optional tax-free lump sum, whilst the balance must be used to provide an income for life usually by purchasing an annuity either with Barclays or with any other insurance company (the "open market option"). On death prior to vesting, the bid value of the allocated units is paid.

Additional Voluntary Contribution (Series 1, 2 and 3) and Free Standing Additional Voluntary Contribution are used by members of an occupational pension schemes who wish to make additional contributions. The policies are used to provide an income for life usually by purchasing an annuity either with Barclays or with any other insurance company. On death prior to vesting, the bid value of the allocated units is paid.

Executive Pension Plan (Series 1 and 2) and Barclays Executive Retirement Account are used for directors or key personnel and there are only limited restrictions on the ability to make contributions to these pensions policies but there are increased limitations on the benefits available upon retirement. The principal benefit is an income for life determined by reference to the final salary and length of service of the policyholder. A proportion of the pension can be commuted into a lump sum payment subject to certain Inland Revenue restrictions.

Personal pension policies can be used to "contract out" of the State Second Pension (previously known as the State Earnings Related Pensions Scheme ("SERPS")). Each tax-year, instead of accruing a pension within SERPS/S2P, the individual receives from the Department for Work and Pensions a contribution from the national insurance fund into their personal pension. These rebates are treated as single contributions. The contribution is invested with the aim that at retirement the resultant pension is greater than the SERPS/S2P pension given up.

Charges for all policy types are taken via a combination of an “initial” reduced allocation period, bid/offer spread (generally of 5%), annual management charges (generally of 1% per annum), allocation of initial units in the early years (with an additional 6 per cent. per annum annual management charge) and premium allocation rate charges.

In April 2001, a new special type of Personal Pension was introduced by legislation – the stakeholder pensions – the primary feature of which is that the annual management charge cannot exceed 1% per annum and no other charges are allowed. Most charges on policies (excluding the Executive Pension Plan (Series 1 and 2) and Barclays Executive Retirement Account) were amended to be broadly consistent with the stakeholder regime in order to discourage customers from transferring out their accumulated funds to another provider. However the additional 6% annual management charge on initial units that have already been allocated continues to be levied.

### **CONVENTIONAL NON-PARTICIPATING BUSINESS (LIFE AND PENSION PRODUCTS)**

Conventional non-linked business falls into four categories – conventional non-linked protection life business, conventional non-linked pensions protection business, guaranteed bonds and conventional pension annuity business. The principal policies that fall within these first three categories include:

- Conventional Non-participating Protection Life Business: Level Term Assurance; MortgageGuard; MortgageGuard Plus; Business Protection Plan; Barclays Personal Cover; Barclays Business Cover; Loansafe; Homeowner Loan Protection; Mortgage Protection Plan; Convertible Term; Critical Illness Plan; Mortgage Protection Place; Over 50's Plan.
- Conventional Non-participating Protection Pensions Business: S.226 Term Assurance, Death-In Service; Pensions Term Assurance; FSAVC Term Assurance; Barclays Retirement Account Term Assurance.
- Guaranteed Bonds: Barclays Crystal Growth Bond; Barclays Guaranteed Growth Bond; Woolwich Guaranteed Equity Bond; Woolwich Guaranteed Growth Bond; Woolwich Guaranteed Income Bond.

### **Conventional Non-participating Protection Business (Life & Pensions)**

Both conventional non-participating protection life business and conventional non-participating protection pensions business consist of non-qualifying policies, effected on a single life or joint life first death basis under which premium depends on the sex and age of the life assured (at entry), smoking habits, the term of the contract and the sum assured (including any additional benefits such as waiver or premium of critical illness) which include the following principal features:

- (i) premiums payable may be paid as a single premium, monthly, quarterly or annually, depending in certain cases on the term of the policy;
- (ii) premium rates may be guaranteed (in the case of Level Term Assurance; MortgageGuard; Loansafe; Homeowner Loan Protection; Personal Pension Plan Term Assurance; Executive Pension Death in Service Benefit; Barclays AVC Pension Plan Term Assurance; Convertible Term Assurance; Mortgage Protection Plan; Woolwich Over 50's Plan); or  
  
reviewable (in the case of MortgageGuard Plus; Business Protection Plan; Barclays Personal Cover; Barclays Business Cover; Woolwich Critical Illness Plan);
- (iii) level sum assured (in the case of Level Term Assurance; Business Protection Plan; Barclays Personal Cover; Barclays Business Cover; Loansafe; Personal Pension Plan Term Assurance; Executive Pension Death in Service Benefit; Barclays AVC Pension Plan Term Assurance); or

reducing sum assured which, in some cases where it is designed to protect a Barclays mortgage, is guaranteed to pay at least the full outstanding amount of the mortgage (in the case of MortgageGuard; MortgageGuard; MortgageGuard Plus; Business Protection Plan; Barclays Personal Cover; Barclays Business Cover; Mortgage Protection Plan; Homeowner Loan Protection);

- (iv) carry additional options (which may be subject to additional conditions, including as to age) including:
  - (A) waiver of mortgage payments if the policy is linked to a Barclays mortgage: (in the case of MortgageGuard Plus; Barclays Personal Cover);
  - (B) the right to add critical illness cover (exercisable on entry into the policy or at any subsequent time subject to underwriting): (in the case of MortgageGuard Plus; Business Protection Plan; Barclays Personal Cover; Barclays Business Cover);
  - (C) waiver of premium benefits: (in the case of: Business Protection Plan; Barclays Personal Cover (Level and Decreasing); Barclays Business Cover (Level and Decreasing); Personal Pension Plan Term Assurance);
  - (D) for policies taken out to protect a repayment mortgage, the policyholder has the option, on taking out a new or additional mortgage resulting from moving house or home improvement to take out an additional policy without health checks, at rates current at the time of such addition, subject to other conditions: (in the case of MortgageGuard; MortgageGuard Plus; Barclays Personal Cover; Homeowner Loan Protection);
  - (E) the policyholder has the option, in the event of the mortgage lender agreeing to an extension of the mortgage repayment period to either extend the policy term or take-out a replacement policy for a longer term without health checks, at rates current at the time of such extension, subject to other conditions: (in the case of MortgageGuard; MortgageGuard Plus; Barclays Decreasing Cover (Personal and Business); Homeowner Loan Protection);
  - (F) the policyholder has the option, before the earlier of expiry date/age 65, to convert to another type of life assurance policy then offered by New Barclays Life (in the case of Convertible Term Assurance).

Non-unit reserves are reserves for expected future claims and expenses to the extent not covered by expected future premiums, taxes due and tax reliefs, and relevant investment income and are calculated as the discounted value of a forward projection on a policy by policy basis. No allowance is made for the possibility that a policy will discontinue early unless such a calculation would result in an increase in reserves. Non-unit reserves are calculated on a prudent basis using prudent parameters.

### **Guaranteed Bonds**

These are single premium endowment contracts for terms of either 5 or 6 years. The maturity benefits provided are related to the performance of the FTSE100 for the Crystal Growth Bond and Woolwich Guaranteed Equity Bond and are fixed at outset for the Barclays Guaranteed Growth Bond, the Woolwich Guaranteed Growth Bond and the Woolwich Guaranteed Income Bond. Usually a fixed sum is payable on death.

There are no explicit charges related to these policies – rather at the outset a reserve will be set up on a conservative basis to cover the expected death and maturity costs plus the ongoing administration costs. The difference between this reserve and the single premium received will be released at the outset as surplus and then on an ongoing basis surplus will be released if the actual experience is better than assumed in the valuation reserves.

### **Conventional Non-participating Pension Annuity Business**

Conventional non-participating pension products and annuity business covers policies where the policyholder receives a regular income, generally for the remainder of their life, in exchange for a single initial premium. The business may be written on a single or joint life basis (where the annuity payments continue until both policyholders have died, although they may often be reduced

after the death of the first life). The annuity payments may be guaranteed for a minimum period, and also may increase by a fixed percentage set at the outset, or in line with a published index, usually the retail prices index, sometimes subject to a maximum increase in any year.

These are written in the pension business fund as pensions in payment which have arisen from assigning the proceeds of vesting unit-linked pensions.

None of the policies written by New Barclays Life or BLAC contain guaranteed annuity options. In addition, WLAC and BLAC have never offered annuities other than to holders of policies originated by WLAC or BLAC.

### **Policy Details**

A more detailed description of the principal policies originated or acquired by the Policy Originators may be obtained from the regulatory returns of the Policy Originators respectively obtainable from Companies Registry, Companies House, Crown Way, Cardiff CF14 3UZ on payment of fees chargeable by Companies Registry or free on application to New Barclays Life at its registered office as set out at the end of this Offering Circular. The regulatory returns will also be available in the manner described in paragraph 18(d) of the section entitled *General Information*.

## APPENDIX 7- CONTENTS OF INVESTOR REPORT

The Investor Report to be produced on an annual basis by the Issuer (save that paragraph 4 will not be provided in April 2004) will include the following information:

1. Calculation Period ended: [●]
2. Relevant Regulatory Surplus Amount to be applied by New Barclays Life under the Reinsurance Agreement at the end of the Calculation Period: [●]
- 3.

	<i>Expected Amortisation Amount per Note</i>	<i>Deferred Expected Amortisation Amount</i>	<i>Pool Factor</i>	<i>Note Principal Payments per Note</i>
Notes	[●]	[●]	[●]	[●]

4. [Other than for the Investor Report in respect of the Calculation Period ending 30 November 2003]

The following projections have been produced for indicative purposes only, without liability (including, without limitation, for negligence) of any nature whatsoever on the part of the Issuer, the Note Trustee, the Issuer Security Trustee, the Issuer Administrator, the Issuer Cash Manager, Ambac, the Reinsurer, the Reinsurer Security Trustee the Reinsurer Administrator, New Barclays Life, Barclays or any director, officer, affiliate or agent of any thereof (including any person performing any actuarial function under the Actuarial Services Outsourcing Agreement) or any affiliate of any thereof (each a "Relevant Person") to any person (including, without limitation, any person who holds, acquires or proposes to hold or acquire any Note or interest in any Note). No Relevant Person assumes or undertakes any duty of care to any person (including, without limitation, any person holding or proposing to acquire any, or any interest in, any Notes) in connection with the preparation or publication thereof. The projections have been based on data and assumptions, which are considered to be reasonable as at the end of the Calculation Period referred to in paragraph 1.

The projections may relate to matters such as assumptions about future experience, including investment returns, tax, early termination rates, paid up rates, mortality, morbidity, persistency, expenses, reinsurance and legislation as well as other factors beyond New Barclays Life's control. Projections are subject to inherent uncertainties and risk. In light of these risks and uncertainties, actual events and results may vary significantly from those included in, or contemplated or implied by, such projections. Prospective investors and Noteholders may not place any reliance on such projections.

The Projected Amortisation Profile represents the outstanding principal of the Notes following the April Interest Payment Date in respect of each Calculation Period, on the assumption that interest is payable on the Subordinated Loan at 7.1 per cent. per annum and the annual expenses of the Reinsurer and the Issuer are £[●] and are paid in accordance with the Issuer's Pre-Enforcement Priority of Payment. The difference between the Projected Amortisation Profile in respect of one Calculation Period and the Projected Amortisation Profile in respect of the next Calculation Period is the amount which, on the projections, would be applied in redeeming the Notes on the April Interest Payment Date following the end of such Calculation Period. The Interest Payment Date in respect of a Calculation Period ending on 30 November in a year is 15 April in the following year (or, if such day is not a Business Day, the immediately succeeding Business Day).

<i>Calculation Period ending 30 November</i>	<i>Relevant Regulatory Surplus Amount<sup>1</sup></i>	<i>Financing Costs<sup>2</sup></i>	<i>Projected Amortisation Profile<sup>3</sup></i>
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013 <sup>4</sup>			

- 1 Relevant Regulatory Surplus is the amount projected on the assumptions used to project the Relevant Regulatory Surplus Amount in respect of each future Calculation Period.
- 2 Financing Costs means the aggregate amount payable on the Swaps and expected costs ranking senior to such Note interest.
- 3 The Projected Amortisation Profile represents the outstanding principal of the Notes following the April Interest Payment Date following each Calculation Period, on the assumption that interest is at a rate equal to [●] per cent. per annum (being the Financing Costs expressed as an annual rate per cent.).
5. A statement confirming whether any amounts have been drawn under the Liquidity Facility, the Ambac Policy, the Ambac Swap Policy or the Ambac Liquidity Facility Policy.

## APPENDIX 8 – APPLICATION FORM

### Gracechurch Life Finance p.l.c.

#### APPLICATION FORM

THIS APPLICATION FORM IS ISSUED WITH THIS OFFERING CIRCULAR SOLELY TO COMPLY WITH THE REQUIREMENTS OF THE EUROPEAN COMMUNITIES (STOCK EXCHANGE) REGULATIONS, 1984 OF IRELAND. IF YOU HAVE ALREADY MADE YOUR APPLICATION FOR NOTES OF GRACECHURCH LIFE FINANCE p.l.c. OR IF YOU HAVE ALREADY RECEIVED A CONFIRMATION OF YOUR PURCHASE OF NOTES OF GRACECHURCH LIFE FINANCE p.l.c. YOU SHOULD NOT TAKE ANY ACTION WITH REGARD TO THIS APPLICATION FORM.

NEITHER GRACECHURCH LIFE FINANCE p.l.c. NOR THE LEAD MANAGER SHALL BE BOUND IN ANY WAY WHATSOEVER TO ISSUE OR SELL ANY NOTE OF GRACECHURCH LIFE FINANCE p.l.c. TO ANY PERSON WHO COMPLETES AND RETURNS THIS FORM.

To:\*

\* Insert Name of [Manager]

I/We offer to purchase \_\_\_\_\_ Notes of Gracechurch Life Finance p.l.c. on and subject to the terms and conditions contained in this Offering Circular.

.....  
MR MRS MISS OR TITLE

.....  
FORENAME(S) (IN FULL)

.....  
SURNAME

.....  
ADDRESS (IN FULL)

.....  
Any joint applicants should complete the following details:

.....  
MR MRS MISS OR TITLE

.....  
MR MRS MISS OR TITLE

.....  
MR MRS MISS OR TITLE

.....  
FORENAME(S) (IN FULL)

.....  
FORENAME(S) (IN FULL)

.....  
FORENAME(S) (IN FULL)

.....  
SURNAME

.....  
SURNAME

.....  
SURNAME

.....  
ADDRESS (IN FULL)

.....  
ADDRESS (IN FULL)

.....  
ADDRESS (IN FULL)

.....  
SIGNATURE

.....  
SIGNATURE

.....  
SIGNATURE

\* Listing Particulars relating to Notes of Gracechurch Life Finance p.l.c. have been prepared, and have been approved by the Irish Stock Exchange Limited in accordance with European Communities (Stock Exchange) Regulations, 1984 of Ireland. Copies of such Listing Particulars can be inspected at or obtained from the registered office of Gracechurch Life Finance p.l.c.

## INDEX OF DEFINED TERMS

£	4
\$	4
€	4
1989 Act	39
ABI SORP	137, 281
Accelerated Payment	159
Accelerated Payment Date	159
Account	160
Accountholder	160
Accounts	100
ACP	222, 241
ACPL	222, 242
Actuarial Services Outsourcing Agreement	37
Actual Data	103
Additional Amounts	158
Additional Capital	116
Administration Reserved Rights	87
Admissible Assets	80, 104
AF	73
Affected Guaranteed Obligations	159, 162
Agency Agreement	17, 164
Agent Bank	164, 165
Agents	18, 164, 165
Aggregate Cost of Funds	81
Aggregate Relevant Regulatory Surplus	63
Agreed Model	103
Ambac	1, 16, 157, 162, 164, 165
Ambac Assurance	149, 151
Ambac Assurance Agreements	156
Ambac Event of Default	165
Ambac Information	2
Ambac Financial Guarantee	1, 25, 118, 164, 165
Ambac Liquidity Facility Financial Guarantee	25, 118, 165
Ambac Reinsurance Agreement	156
Ambac Swap Financial Guarantee	26, 118, 165
Ambac Termination Event	165
Appointment Event	110
Arm's-length terms	104
Assumptions	103
Authority	39
Available Information	95
Available Redemption Funds	165
Barclays	16, 165
Barclays Group	43
Barclays Series 1 Life Policy	70
Base Case	3, 61
Base Case Assumptions	62, 103
Base Case Date	3, 61
Basic Terms Modification	166
Beneficiary	159, 162
BGI	51
BLAC	6
BLAC Contingent Loan Agreement	128
Breach	98, 166
Breach Determination Period	111
Bridging Contingent Loan	6



Business Day	159, 166
Calculation Date	70
Calculation Period	70
Clearing System	159
Clearing Systems	159
Clearstream, Luxembourg	1, 166
Closing Date	1, 164, 166
Collateral Amount	120
Commitment Fees	166
Common Depository	1, 166, 198
Company	146
Conditions	159, 164, 166
Confirmation	24
Connie Lee	151
Contingent Loans Discharge Agreement	129
Controlling Creditor	166
Couponholders	164, 166
Coupons	166
Coupon Sheet	166, 189
Covered Life Policy	70
Covered Pensions Policy	70
Covered Policy	70
CP 195	38
Court	41
Cumulative Materiality Threshold	97
Current Loss	112
Deemed Warranties	98, 166
Default Rate	123
Deferred Consideration	6
Deferred Expected Amortisation Amount	167
Definitive Note	168
Definitive Notes	1
Directed Transfer	36, 106
Dire	103
Dispute Notice	96
Disputed Relevant Regulatory Surplus	96
Due for Payment	159
Eligible Deposits	167
Enforcement Notice	167, 191
Estimated Relevant Regulatory Surplus	96
Euro	4
Euroclear	1, 159, 167
Excess Reserve Amount	98, 167
Exchange Date	1, 20, 167, 198
Exchange Event	167, 198
Executive Investment Committee	52
Expected Amortisation Amount	167
Expenses Loan	116, 167
Expenses Loan Agreement	116, 167
Expenses Loan Amortisation Amount	117, 167
Expenses Loan Interest Rate	116
Expenses Loan Provider	167
Experience Account	72
Extraordinary Resolution	168
Final Life Premium	76
Final Maturity Date	23, 168
Finance Investment Management and Custody Rights	88
Financial Guarantees	118, 168
Financial Services Authority	73

Financial Statements of Ambac Assurance UK Limited	2
Financing	113
Financing Rate	10, 60, 295, 296, 297, 298, 299, 300
Form 40	74
Form 58	75
Form of Ambac Financial Guarantee	1, 2, 25, 29, 118
Free Assets	112
FRS 1	137
FSA	36, 149
FSMA	204
Fund Value	70
Funded Capital Injection	112
Further Advance	93, 168
Further Advance Event	168
Future Loss	112
FV <sub>CF</sub>	69
FV <sub>RF</sub>	69
General Information	2, 95
Group	144
Global Notes	168
Guarantee and Reimbursement Agreement	173
Guarantee Fee	159
Guarantee Fee Letter	159
Guaranteed Amounts	159
Guaranteed Obligations	159
Holder	159
Indebtedness	168
Independent Actuary	97
Independent Relevant Regulatory Surplus	97
Independent Review	110
Initial Advance	93
Initial Reserving Basis	94
Insolvency Law	160
Insolvency Official	168
Insolvency Proceedings	168
Insurance Regulator	36
Interest Amount	168, 184
Interest Determination Date	168
Interest Payment Date	1, 23, 168
Interest Period	1, 23, 168
Investor Report	118, 168
Investment Considerations	1, 2, 6, 64
Involuntary Reduction	115
Irish Paying Agent	164, 168
Irish Stock Exchange	1
ISDA	120
ISDA Master	24
ISDA Master Agreement	168
Issuer	1, 7, 16, 66, 132, 160, 162, 164, 169
Issuer Account Bank	18, 126, 169
Issuer Account Bank Agreement	18, 126, 169
Issuer Accounts	126, 169
Issuer Administration Agreement	18, 169
Issuer Administrator	18, 126, 169
Issuer Assigned Agreements	21, 124, 169, 179
Issuer Available Funds	169
Issuer Cash Management Agreement	126, 169

Issuer Cash Manager	18, 126, 170
Issuer Charged Property	170
Issuer Deed of Charge	21, 165, 170
Issuer Event of Default	21, 170, 192
Issuer Post-Enforcement Priority of Payments	170, 182
Issuer Pre-Enforcement Priority of Payments	170, 180
Issuer Priorities of Payments	171
Issuer Report Date	171
Issuer Reserve Account	126, 171
Issuer Secured Creditors	124, 171
Issuer Secured Obligations	171
Issuer Security	21, 124, 171
Issuer Security Trustee	17, 165, 171
Issuer Share Capital Account	126, 171
Issuer Transaction Account	126, 171
Law	98
Lead Manager	172
Liberata	36
LIBOR	171
Licences	99
Life Liability Recapture Amount	75
Linked Assets Sale and Purchase Agreement	129
Linked Reassurance Agreement	129
Liquidity Advance	172
Liquidity Facility	172
Liquidity Facility Agreement	172
Liquidity Gross-up Amounts	181
Liquidity Provider	172
Liquidity Requisite Rating	17
Liquidity Reserve Account	124, 126, 172
Liquidity Shortfall	123
Loan Interest Payment Date	81, 93, 172
Loan Interest Period	81, 93
Loan Interest Period Date	81
Mandatory Redemption	35
Margin Stock	84
Master Definitions Schedule	172
Material Adverse Effect	85, 98
Material Variance	102
Materiality Threshold	96
Meeting	172
Minister	39
Min {x,y}	69
Max [x,y]	69
Max (x,y)	72
Mis-selling Liability	107
Model Policies	103
Moody's	1, 120, 172
Moody's Criteria	121
Net Worth Maintenance Agreement	157
New Barclays Life	6, 172
New Barclays Life Fund	70
Nonpayment	161
Note Principal Payment	172, 188
Note Trustee	1, 117, 165, 173
Noteholders	165, 173
Notes	1, 20, 161, 165, 173
Notice of Demand	161
Offering Circular	133, 147, 173

Optional Redemption	35
Ordinary Expenses	83
Original Model	101
Other Secured Contractual Rights outstanding	124, 173 173
Overfunded Amount	110
Participating Policy	100
Paying Agent	161, 174
Paying Agents	18, 165, 173
Payment Date	70
Pensions Liability Recapture Amount	75
Permanent Global Note	1, 20, 173
Permitted Change	94
Permitted Indebtedness	110
Permitted Security Interest	78
Permitted Reserving Basis	95
Person	161
Policy Excluded Amounts	161
Policy Originator	16
Policy Originators	16
Pool Factor	174, 188
Potential Ambac Event of Default	174
Potential Breach	174
Pounds	●
Preference	161
Preliminary Notification Date	96
Preliminary Relevant Regulatory Surplus	96
Principal Amount Outstanding	174
Principal Paying Agent	165, 174
Proposed Valuation Basis	95
Protection Period	41
Provisions for Meetings of Noteholders	174
prudent insurer	105
PvsSfall	73
PVIF	38
Quoted Eurobonds	201, 203
Rate of Interest	174, 185
Rating Agencies	1, 174
Rating Condition	174
Receipt	161
Receiver	174
Reference Banks	174
Refundable Amount	98, 113, 174
Regulations	1
Regulatory Surplus Line	74
Reinsurance Agreement	174
Reinsurer	16, 174
Reinsurer Account Bank	86, 174
Reinsurer Administration Agreement	18, 174
Reinsurer Administrator	18, 86, 174
Reinsurer Advances Account	86, 174
Reinsurer Assigned Agreements	87
Reinsurer Available Funds	83
Reinsurer Capital Account	87
Reinsurer Cost of Funds	81
Reinsurer Enforcement Events	84
Reinsurer Enforcement Notice	85
Reinsurer Investment Management and Custody Agreement	86
Reinsurer Deed of Charge	28, 87, 174

Reinsurer Finance Secured Creditors	87
Reinsurer Finance Secured Obligations	87
Reinsurer Finance Security	89
Reinsurer Reinsurance Security	89
Reinsurer Fund	70
Reinsurer Funding Bank Account Agreement	18, 86, 175
Reinsurer General Account	87, 175
Reinsurer Gross-up Loan	27, 83, 175
Reinsurer Investment Manager and Custodian	16, 86, 175
Reinsurer Loan	81, 175
Reinsurer Loan Agreement	175
Reinsurer Loan Outstanding	82
Reinsurer Profit Margin	83
Reinsurer Reinsurance Assigned Agreements	88
Reinsurer Reinsurance Bank Account Agreement	18, 86, 175
Reinsurer Reinsurance Secured Creditors	87
Reinsurer Reinsurance Secured Obligations	87
Reinsurer Reserve Account	86, 90, 175
Reinsurer Secured Creditors	87, 175
Reinsurer Securities Account	86
Reinsurer Securities Accounts	86
Reinsurer Security	28, 87
Reinsurer Security Trustee	17, 87, 175
Reinsurer Transaction Account	86, 175
Relevant Date	161, 175
Relevant Margin	175, 185
Relevant Regulatory Surplus Amount	8, 175
Representative Data	103
Required Minimum Margin	74, 101
Required Ratings	121
Required Reserve Amount	175
Reserved Matter	175
Retained Amount	74
Retained Surplus	38, 114
Returns	99
Rlse	73
RSA	128
RS	72
RS Determination Date	97
RtPayment	69
S&P	1, 120, 176
S&P Criteria	120
S&P Rating Event	120
Schedule	24
Scheduled Expenses Loan Amount	117
Scheduled Interest	161
Scheduled Payment Date	161
Scheme Date	6, 129
Scheme Transfer	6, 129
Secured Contractual Rights	176
Securities Act	2
Security Interest	78
Security Powers of Attorney	176
Senior Funding Amount	75
Sensitivity Assumptions	63
Service Provider	104
Servicing Contracts	104
SFInject	73
Share Trustee	146

Shareholders' Capital	38, 114
Shortfall	163
Solvency I	38
Solvency II	38
SORP	38
Specific Information	95
Specified office	176
Stabilisation Manager	4
Standby Drawings	176
Sterling	176
Stress Case Assumptions	103
Stock Exchange	176
Subordinated Loan	176
Subordinated Loan Agreement	176
Subordinated Loan Interest Rate	26
Subordinated Loan Provider	176
Subscription Agreement	176, 205, 310
Surplus Notification Date	97
Swap	24, 176
Swap Agreement	25, 176
Swap Fixed Amount	24, 119
Swap Fixed Interest Period	25, 119
Swap Fixed Rate	25, 119
Swap Notional Principal	25
Swap Provider	176
Swap Requisite Rating	176
Swap Scheduled Amount	17, 25, 119
Swap Subordinated Amounts	181
Talontholders	181
Talons	165, 177
Tax Assumptions	103
Taxes Act	103, 108, 203
TCA 1997	●
Temporary Global Note	1, 20, 177
Termination Payment	123
Tillinghast	3
Transaction Documents	177
Trustee	162
Trust Deed	17, 20, 161, 165, 177
Trust Documents	177
Ultimate Principal	162
Undertaking	112
Unfunded Capital Injection	112
Unfunded Expected Future Relevant Regulatory Surplus Loss	113
Unguaranteed Rating	177
Unit-Linked Liabilities	70
Unit-Linked Life Liabilities	71
Unit-Linked Pensions Liabilities	71
VAT	177
WLAC	6
WLAC Contingent Loan Agreement with profits	128 6, 10, 39, 47, 56
Written Resolution	177

**REGISTERED OFFICE OF THE ISSUER**

Trinity House  
Charleston Road  
Ranelagh  
Dublin 6

Registered office of:  
**New Barclays Life**  
54 Lombard Street  
London EC3A 3AH

Registered office of:  
**Barclays Reinsurance Dublin Limited**  
47/48 St. Stephen's Green  
Dublin 2  
Ireland

**NOTE TRUSTEE, ISSUER SECURITY TRUSTEE, REINSURER SECURITY TRUSTEE,  
AGENT BANK AND PRINCIPAL PAYING AGENT**

**The Bank of New York, London Branch**

One Canada Square  
London  
E14 5AL

**IRISH PAYING AGENT**

**AIB/BNY Fund Management (Ireland) Limited**  
Guild House, Guild Street, IFSC  
Dublin, Ireland

**AMBAC POLICY PROVIDER**  
**Ambac Assurance UK Limited**  
Head Office  
Hasilwood House  
60 Bishopsgate, London EC2N 4BE

**IRISH LISTING AGENT**

**Goodbody Stockbrokers**  
Ballsbridge Park  
Dublin 4, Ireland

**LEAD MANAGER**  
**Barclays Capital**  
5 The North Colonnade  
Canary Wharf  
E14 4BB

**LEGAL ADVISERS**

*To the Lead Manager, Barclays, the Issuer Security  
Trustee, the Reinsurer Security Trustee and the  
Note Trustee as to English Law*  
**Freshfields Bruckhaus Deringer**  
65 Fleet Street  
London, EC4Y 1HS

*To the Lead Manager, the Issuer, the Issuer Security  
Trustee, the Reinsurer Security Trustee and the  
Note Trustee as to Irish Law*  
**McCann FitzGerald**  
2 Harbourmaster Place  
International Financial Services Centre  
Dublin 1, Ireland

*To New Barclays Life, Barclays, the Reinsurer  
and BLAC as to English Law*  
**Lovells**  
Atlantic House  
Holborn Viaduct  
London EC1A 2FG

*To Ambac as to English Law*  
**Linklaters & Alliance**  
One Silk Street  
London EC2Y 8HQ

*Special Irish Tax Counsel to the Issuer and the Reinsurer*

**Matheson Ormsby Prentice**  
30 Herbert Street  
Dublin 2  
Ireland

**AUDITORS TO THE ISSUER**

**PricewaterhouseCoopers**  
Chartered Accountants  
Wilton Place  
Dublin 2  
Ireland

**CONSULTING ACTUARIES TO NEW BARCLAYS LIFE**

**Tillinghast-Towers Perrin**  
71 High Holborn  
London  
WC1V 6TH